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Transcript Exhibit(s)

Docket #(s): W-03514A-10-0116

W-03514A-10-0117

U.S. CORP COMMISSION
DOCKET CONTROL

SEP 30 2013

SL

Exhibit #: S1-S3, A1-A5

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

Arizona Corporation Commission

DOCKETED

SEP 28 2010

DOCKETED BY

nr

EXHIBIT

ADMITTED

7 IN THE MATTER OF THE APPLICATION OF
8 PAYSON WATER COMPANY ON BEHALF
9 OF ITS MESA DEL CABALLO SYSTEM FOR
10 APPROVAL OF A WATER AUGMENTATION
11 SURCHARGE/EMERGENCY RATE TARIFF.

DOCKET NO. W-03514A-10-0116

10 IN THE MATTER OF THE NOTICE OF FILING
11 OF PAYSON WATER COMPANY'S PROPOSED
12 CHANGES TO ITS CURTAILMENT TARIFF
(MESA DEL CABALLO SYSTEM).

DOCKET NO. W-03514A-10-0117

DECISION NO.: 71902

OPINION AND ORDER

13 DATE OF PRE-HEARING CONFERENCE:

May 17, 2010

14 DATE OF HEARING:

May 18, 2010

15 PLACE OF HEARING:

Phoenix, Arizona

16 ADMINISTRATIVE LAW JUDGE:

Marc E. Stern

17 APPEARANCES:

Mr. Patrick J. Black, FENNEMORE CRAIG, on
behalf of Payson Water Company;

Mr. Randy Norman, Co-chairman, Mesa Del
Caballo Water Committee, Intervenor; and

Ms. Kimberly Ruht, Staff Attorney, Legal
Division, on behalf of the Utilities Division of
the Arizona Corporation Commission.

22 **BY THE COMMISSION:**

23 On March 31, 2010, Payson Water Company ("PWC," "Applicant," or "Company")
24 on behalf of its Mesa Del Caballo System ("MDC") filed with the Arizona Corporation Commission
25 ("Commission") an application for the emergency implementation of a water augmentation surcharge
26 or emergency rate tariff due to water shortages on its MDC System. The Company claims that it can
27 no longer augment the water supply for its MDC System and asserts that, in 2009, the Company
28 absorbed \$59,137 in water hauling costs for the MDC System. The Company seeks a monthly water

1 augmentation surcharge/emergency rate tariff to be charged per 1,000 gallons of water for customers
2 on the MDC System in order to offset the Company's costs for hauling water. The Company is
3 investigating two options to solve its water shortages on the MDC System by either drilling a new
4 deep well to serve the MDC System or by connecting the MDC System to the future C.C. Cragin
5 Reservoir water pipeline that will serve the Town of Payson ("Town") water system in the future.

6 The Company, concurrently with the aforementioned application, also filed a request for
7 Commission approval of proposed revisions to its Curtailment Tariff solely for its MDC System. The
8 Company indicated that the proposed revisions to its Curtailment Tariff are not to go into effect
9 unless the Commission approves the implementation of the emergency water augmentation surcharge
10 requested herein.

11 On April 5, 2010, the Company filed a Motion to Consolidate ("Motion") the above-captioned
12 applications because the two matters are interrelated and could best be addressed by the Commission
13 in one proceeding. There were no objections filed to the Company's Motion.

14 On April 22, 2010, by Procedural Order, the proceedings were consolidated and a hearing
15 scheduled for May 18, 2010, to determine if an emergency existed pursuant to Attorney General
16 Opinion No. 71-17 and whether a water augmentation surcharge/emergency rate should be approved.
17 It was also ordered that public notice be given of the pending application, the hearing, the right to
18 intervene and the proposed amount of the surcharge.

19 On April 28, 2010, the Mesa Del Water Committee ("MDWC") filed a Motion to Intervene.

20 On April 30, 2010, by Procedural Order, MDWC was granted intervention.

21 On May 14, 2010, the Company filed certification that it had provided public notice pursuant
22 to the Commission's April 22, 2010, Procedural Order.

23 On May 18, 2010, a full public hearing was held at the Commission's offices in Phoenix,
24 Arizona. The Company and Staff appeared with counsel. MDWC appeared and was represented by
25 its co-chairman. A customer of the Company appeared and gave public comment. Subsequently, it
26 was determined that although public notice had been given of the proceeding by the Company, the
27 proposed level of the surcharge was not disclosed to its customers. The presiding Administrative
28 Law Judge ("ALJ") indicated that the record would remain open and directed Applicant to re-notice

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Pursuant to authority granted by the Commission, the Company provides water service to an area in the vicinity of Payson, Arizona.

2. The Company's present rates and charges were approved by the Commission in Decision No. 62401 (March 28, 2000).

3. MDC is one of nine independent water systems operated by PWC in Gila County and has approximately 370 service connections on the MDC System.

4. On May 5, 2005, the Commission issued Decision No. 67819 and denied a previous application by PWC for a water augmentation surcharge tariff for all of its systems. However, in Decision No. 67821, the Commission approved a Curtailment Plan Tariff for all of Applicant's systems. Decision No. 67821 further authorized the Company under Stages 3, 4 and 5 of its Curtailment Tariff to disconnect customers who did not conserve water and to impose financial penalties for reconnection to enforce mandatory conservation of water when more stringent measures were in effect.

5. The Commission denied the previous application by PWC for approval of a water augmentation surcharge tariff because it concluded that the requested surcharge was not revenue neutral and could only be considered in the context of a rate case filing.

6. On March 31, 2010, the Company filed on behalf of its MCD System an application for the emergency implementation of a water augmentation surcharge/emergency rate tariff due to water shortages on its MDC System. Additionally, the Company filed a request for the Commission's approval of proposed changes to its Curtailment Tariff solely for its MDC System and increased enforcement penalties for Stages 3, 4 and 5 during a curtailment.

7. In its application for the emergency implementation of a water augmentation surcharge, the Company alleged that it could no longer afford to pay for bulk water purchases and water hauling for its MDC System and stated that, in 2009, the Company absorbed \$59,137 in water

1 hauling costs for this system.

2 8. The Company is seeking a monthly surcharge which would recover the water hauling
3 costs based on a customer's water usage in the previous month per 1,000 gallons. The period that the
4 surcharge could be imposed is to run during the peak summer months from May 1st through
5 September 30th.

6 9. On May 10, 2010, Staff, after conducting an investigation of the Company's proposed
7 water augmentation surcharge and the proposed changes to its Curtailment Tariff, recommended
8 approval of the water augmentation surcharge tariff on an interim basis until permanent rate relief is
9 granted by the Commission. Staff further recommended that the Company's proposed changes to its
10 MDC System Curtailment Tariff be approved subject to Staff's amendments.

11 10. On May 14 and June 18, 2010, the Company filed certification that it had provided
12 notice of the above-captioned proceedings consistent with the Commission's Procedural Orders.

13 11. According to Myndi Brogdon, the Company's Customer Relations Representative,
14 MDWC was established by members of the El Caballo Club, which is a club for residents of the
15 Mesa Del Caballo subdivision, and is located in the MDC service area. The MDWC actively sought
16 out Ms. Brogdon and Mr. Robert Hardcastle, the Company's president, in the fall of 2009 to address
17 the problems related to water shortages on the MDC System.

18 12. The MDWC played an active part in the preparation of the changes proposed for the
19 Curtailment Plan Tariff for the MDC System.

20 13. In order to inform customers on the MDC System of the proposed emergency
21 augmentation surcharge and the changes to the Company's Curtailment Tariff for the MDC System,
22 the Company held four meetings with customers on April 8 and 10, 2010.

23 14. During these meetings, discussions were held to inform the customers of what it
24 would cost the Company to haul water in the event of water shortages.

25 15. According to Ms. Brogdon, the Company will be able to augment its water supply
26 with water purchased from the Town for approximately seven dollars per 1,000 gallons and the Town
27
28

1 has agreed to supply up to 86,400 gallons of water per day, if needed on a temporary basis.¹

2 16. Ms. Brogdon termed the augmentation surcharge to be a revenue neutral/pass-through
3 cost.

4 17. In support of its request herein, the Company submitted a petition signed by 96
5 residents who are customers of the MDC System and who support the Company's efforts to develop
6 additional water supplies.²

7 18. The co-chairman of the MDWC, Mr. Randy Norman, testified in support of the
8 Company's requests in this proceeding. He believes that the customers of the MDC System
9 overwhelmingly support the idea of water being available at a higher price if it has to be hauled.

10 19. Mr. Robert Hardcastle, the President of the Company and its parent, Brooke Utilities,
11 testified that the Company experienced difficulties during the summer of 2009 and water hauling
12 became necessary costing the Company \$59,137.

13 20. According to Mr. Hardcastle, the Company cannot continue to absorb excessive
14 expenses due to the cost of water hauling for the MDC System.

15 21. Mr. Hardcastle related that the Company's best long-term option is to construct an
16 interconnection in the vicinity of the Mesa Del Caballo subdivision with the pipeline from the C.C.
17 Cragin Reservoir which it is anticipated will be constructed sometime between 2013 and 2015 to
18 provide water to the Town.

19 22. In terms of a short-term solution, the MDWC and the Company resolved that hauling
20 water funded by the augmentation surcharge and educating the Company's customers to conserve
21 their water usage were the best short-term solutions.

22 23. Mr. Hardcastle is requesting that the surcharge coincide with the summer season from
23 the beginning of May through September. He further requested that the implementation of the
24 surcharge be made retroactive to May 1, 2010.

25 24. Mr. Hardcastle further related that the Company did not file its application for the
26

27 ¹ Due to the MDC System's proximity to the Town, the Company anticipates that water hauling costs will be reduced this
year over the costs previously incurred primarily due to the short distance and time required for hauling water.

28 ² After the re-notification of the proceeding to customers on the MDC System, two residents' names were removed by the
Company at their request.

1 surcharge until March 31, 2010, because the Company wished to work with the MDWC and this
2 required a number of meetings and discussions in order to come up with a plan upon which the
3 parties agreed.

4 25. According to Mr. Hardcastle, MDWC was actively involved in the preparation, review
5 and drafting of the Company's proposed revisions to its Curtailment Tariff.

6 26. Although the Company had proposed changes to the original Curtailment Tariff
7 approved in Decision No. 67821 which were more stringent than those originally approved by the
8 Commission, after meeting and working with Staff and MDWC after the hearing on June 2, 2010, the
9 Company filed a late-filed exhibit which contains revisions to its proposed Curtailment Tariff for its
10 MDC System, and which addresses the concerns raised by Staff in its report and discussed during the
11 hearing. A copy of the amended Curtailment Tariff is marked Exhibit "A," attached hereto, and
12 incorporated herein by reference.

13 27. The amended Curtailment Tariff for the MDC System that was filed by the Company
14 incorporates modifications and addresses the parties' concerns as follows:

- 15 • Customers who use 4,000 gallons per month or less based on a 12-month
16 rolling average are exempt from the mandatory reduction in daily use
17 requirements triggered in Stages 3, 4 or 5 of any curtailment. The purpose of
18 this exemption is that customers using 4,000 gallons per month or less are
19 more likely to have already utilized water conservation measures, and a further
20 reduction in water use is likely to impact basic water needs.
- 21 • Specific prohibitions against indoor water use have been eliminated. This
22 addresses Staff's concerns about mandatory reductions in basic water use
23 needs for the continued health and safety of customers.
- 24 • The requirement that a customer must face automatic fines and penalties for
25 violation of the Curtailment Tariff has been changed to provide the Company
26 flexibility in determining whether such fines and penalties are warranted. This
27 addresses Staff's concerns that a violation of the Curtailment Tariff might be
28 the result of a water leak, or something else beyond the customer's control,
making an automatic assessment of fines and penalties unwarranted in certain
circumstances.
- The definition of 'daily use' has been modified. Under the newly proposed
language, percentage reductions (based on the applicable Stage) are taken from
the higher of: (a) the immediately preceding month's actual water
consumption, or (b) water consumption for the same month in any one of the
two previous years for the same service location. This language was inserted to
address Staff's concern over the possible confusion a customer might have
over the 'daily use' calculation, as well as the potential inequity if applied to
seasonal use customers. The example provided has also been clarified.

1 28. On June 4, 2010, Staff filed notice that it did not have any objections with the
2 amended Curtailment Tariff as set forth in Exhibit "A" and filed by the Company on June 2, 2010.

3 29. The Company will monitor customers who are identified as high water users and will
4 contact them to encourage them to conserve water in light of its proposed curtailment plan, since the
5 Company understands that high water usage creates the need for water hauling and increases the cost
6 for all customers, not just excessive water users.

7 30. According to Mr. Hardcastle, MDWC was instrumental in fashioning the proposed
8 Curtailment Tariff for the MDC System and in determining the reconnection penalty fees in order to
9 discourage customers from wasting water.

10 31. Aside from the utilization of the Curtailment Tariff which will be used to encourage
11 water conservation, the Company also has explored another short-term plan which entails running an
12 above-ground pipeline from a water source provided under agreement with the Town approximately
13 1.5 miles away to interconnect with the MDC water system. However, there are numerous problems
14 with this proposal because the pipeline would have to be routed across lands which are controlled by
15 the U.S. Forest Service, and this will require a number of studies to be completed taking one to two
16 years to complete before construction could take place.

17 32. If the above-ground pipeline is utilized in the future, the Company will rent the
18 pipeline from a California company, Rain 4 Rent, at a cost of \$9,000 per month for the five month
19 water augmentation period for a total of \$45,000.

20 33. Additionally, the Company has looked into the drilling of a well, but it does not yet
21 have an understanding of the costs involved and what it would require from the Company in the form
22 of an investment and what it would ultimately cost customers.

23 34. As of the date of the hearing in this proceeding, May 18, 2010, the Company had not
24 yet been required to purchase and haul water from the Town.

25 35. In the past, the Company has collected a few fines from customers who have violated
26 the Curtailment Tariff and deposited those monies into a segregated impound account for use in water
27 conservation and water development costs. Additionally, the Company does not oppose any funds
28 collected from the MDC System's customers as a penalty being deposited and applied to offset any

1 water augmentation costs incurred by the Company in order to reduce the amount of the monthly
2 surcharge for all MDC System customers.

3 36. According to the Staff Report filed on May 10, 2010, the Company's proposed
4 revisions to its existing Curtailment Tariff that will be used for the MDC System will not go into
5 effect unless the Commission approves the water augmentation surcharge/emergency tariff for the
6 Company.

7 37. With the adoption of Staff's recommended changes to the Company's original
8 proposal with respect to the revisions to its Curtailment Tariff for the MDC System, Staff is
9 recommending approval of the revised Curtailment Tariff described in Exhibit "A."

10 38. Staff specifically recommended that the water consumption calculation of "daily use"
11 in the Company's initial proposal be excluded because Staff found it to be confusing and not easily
12 understood.

13 39. In the event that the Commission does not approve the revised Curtailment Tariff
14 which was filed on June 2, 2010, Staff is recommending that the Company's existing Curtailment
15 Tariff be continued.

16 40. Mr. Marlin Scott, a Staff engineer, testified that one of the short-term solutions for the
17 MDC System, the 1.5 mile long above-ground interconnection with the Town's water system, is
18 similar to a situation which previously existed between Arizona Water Company and the Golden
19 Corridor Water Company near Casa Grande.

20 41. Mr. Scott is familiar with the possible solution posed by the interconnection with the
21 Town's system once the C.C. Cragin pipeline is completed in several years, and the other proposed
22 long-term project for the Company to drill a new deep well. However, Staff lacks sufficient
23 information to form an opinion as to whether the drilling project is feasible.

24 42. The primary reason Staff opposed the "daily use" calculation in the proposed
25 Curtailment Tariff for the MDC System was because it could involve an implementation of a
26 curtailment both outside the house, which is usually the case, and in this instance inside the house
27 where a curtailment is not usually applied.

28 43. According to Mr. Scott, the MDC System's 105,000 gallons of storage capacity is

1 sufficient to serve only 305 connections, and this factor, coupled with the poor water production of
2 the nine wells on the system, create the Company's water shortages on the MDC System.

3 44. The primary problem which the Company's MDC System faces is its well capacities
4 since the water production of the Company's nine wells total 59 gallons a minute at peak capacity
5 and fluctuate down to 19 gallons a minute when production slows. However, even when the wells
6 are producing at maximum capacity, there is insufficient water available for the customers during the
7 peak summer months and that is what causes the Company to have to haul water, as was the case last
8 year.

9 45. Mr. Darak Eaddy, Staff's accounting witness, believes that the Company's proposal to
10 make the water augmentation surcharge effective retroactively to May 1, 2010, would constitute
11 retroactive rate making in violation of Arizona law.

12 46. According to Mr. Eaddy, if the Company is required to haul all of its water for
13 customer usage, a median user who used 3,621 gallons of water would see a 501.2 percent increase in
14 his bill from \$22.95 to \$137.97. However, Mr. Eaddy pointed out that this is a worst case scenario
15 and the amount of the proposed surcharge would depend on the availability of the Company's own
16 water pumped from its wells.

17 47. As described in the Staff Report, if the proposed water augmentation surcharge had
18 been in effect during the peak months of 2009, a typical customer would have experienced an
19 increase of \$16.50 for hauled water on their monthly bill.

20 48. It is not possible for Staff to determine the financial impact of the proposed water
21 augmentation surcharge on the Company's customers because it will be based on a customer's actual
22 water usage and the amount of water which the Company is required to haul in any given month.

23 49. The Company's present rates for its MDC System were approved by the Commission
24 in Decision No. 62401 (March 28, 2000), which established a base rate of \$16 a month for 5/8-inch x
25 3/4-inch meter customers and an excess gallonage charge of \$1.93 per 1,000 gallons for up to the first
26 4,000 gallons of water usage, and \$2.09 per 1,000 gallons in excess of 4,000 gallons.

27 50. The Company is in compliance with prior Commission orders and has no outstanding
28 compliance issues with the Commission's Corporations Division.

51. Staff believes that the Company meets the requirements of Attorney General Opinion No. 71-17 to establish an interim emergency rate pending a formal rate determination. Based on the record, Staff is recommending that the Commission approve the Company's application for a water augmentation surcharge tariff for its MDC System and amended Curtailment Tariff as set forth in Exhibit "A" which was filed by the Company on June 2, 2010. Staff is additionally recommending the following:

- that the water augmentation surcharge tariff not be applied retroactively;
- that the water augmentation surcharge tariff be interim, subject to refund, and only effective until permanent rate relief is granted by the Commission;
- that the water augmentation surcharge tariff rate be effective for a five-month period, from May 1 through September 30 of any calendar year;
- that the water augmentation surcharge tariff rate only be effective for the Company's MDC System;
- that the water augmentation surcharge tariff rate solely cover documented expenses for hauling water to the Company's MDC System;
- that the Company be ordered to file, within 30 days of the effective date of this Decision, a revised rate schedule reflecting the water augmentation surcharge tariff with the Commission's Docket Control, as a compliance item in this docket;
- that the Company provide its customers a copy of the revised water augmentation surcharge tariff and its effective date, in a form acceptable to Staff, by means of an insert in the Company's next regularly scheduled billing;
- that the Company file a full rate case within 12 months of the effective date of this Decision;
- that if the Company believes that it will need to incur debt in order to solve its water shortage problem, that it file a financing application concurrently with its rate application as ordered hereinabove; and
- that the Company be required to post a bond or irrevocable sight draft letter of credit in the amount of \$60,000 to ensure that there is sufficient money available to refund to customers if the Commission determines in the permanent rate case that the emergency surcharge was not needed or too large. However, should the Commission choose a minimal bond as it has in some recent emergency applications, Staff recommends an additional option of posting a cashier's check with the Commission for a lower amount, e.g. \$100. This option is recommended as the Company may be unable to obtain a bond or sight draft letter of credit.

52. Following public notice of the proceeding for a second time, with respect to the water augmentation surcharge tariff and the proposed Curtailment Tariff, the Commission received a number of comments from customers of MDC expressing their concerns about the system, but none

1 requested intervention or requested that the proceeding be reconvened for the taking of additional
2 evidence. As a result, the record was closed and the matter taken under advisement.

3 53. Under the circumstances, we believe that the Company's application for approval of
4 an emergency water augmentation surcharge tariff and a revised Curtailment Tariff as set forth in
5 Exhibit "A" should be approved in order to insure that the Company's customers are able to be
6 provided with an adequate source of water in the event shortages occur on the system prior to the
7 Company developing a long-term solution to its water shortage problem. Additionally, we believe
8 that the Company should be permitted to file a minimal bond in the form of a \$100 cashier's check.

9 54. Because an allowance for the property tax expense of the Company is included in the
10 Company's rates and will be collected from its customers, the Commission seeks assurances from the
11 Company that any taxes collected from rate payers have been remitted to the appropriate taxing
12 authority. It has come to the Commission's attention that a number of Company's have been
13 unwilling or unable to fulfill their obligation to pay the taxes that were collected from rate payers,
14 some for as many as 20 years. It is reasonable, therefore, that as a preventive measure the Company
15 annually file, as part of its Annual Report, an affidavit with the Utilities Division attesting that the
16 Company is current in paying its property taxes in Arizona.

17 55. Since Mesa Del Caballo is outside of an Active Management Area, it will not be
18 required to comply with the conservation goals and management practices of the Arizona Department
19 of Water Resources ("ADWR"). In light of the need to conserve groundwater in Arizona, we believe
20 it is reasonable to require Mesa Del Caballo to address conservation and submit for Commission
21 approval within 120 days of the effective date of this Decision, at least five Best Management
22 Practices ("BMPs") (as outlined in ADWR's Modified Non-Per Capita Conservation Program). The
23 BMPs shall generally follow the template contained on the Commission's website. A maximum of
24 two of these BMPs may come from the "Public awareness/PR or Education and Training" categories
25 of the BMPs. The Company may request cost recovery of actual costs associated with the BMPs
26 implemented in its next rate case.

27 ...
28

CONCLUSIONS OF LAW

1
2 1. Applicant is a public service corporation within the meaning of Article XV of the
3 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

4 2. The Commission has jurisdiction over the Company and of the subject matter of the
5 application for approval of a water augmentation surcharge tariff and for approval of the Company's
6 proposed revisions to its Curtailment Tariff for its MDC System.

7 3. Notice of the application and revisions to the Company's Curtailment Tariff was
8 provided in the manner prescribed by law.

9 4. Applicant is facing an "emergency" within the definition set forth in Attorney General
10 Opinion No. 71-17 as discussed herein.

11 5. The standards for approval of a request for interim rate relief require an existence of
12 an emergency; the posting of a bond or a sight draft letter of credit by the Company; and subsequent
13 filing of a permanent rate application.

14 6. Approval of the Company's application for interim rate relief, as described herein, is
15 consistent with the Commission's authority under the Arizona Constitution, rate making statutes, and
16 applicable case law.

17 7. The request for approval of an emergency water augmentation surcharge tariff for the
18 five month period commencing May 1 and ending September 30 of each following year from the
19 effective date of this Order is just and reasonable, under the specific facts presented in this case, and
20 should be collected by means of a pass through of the cost of hauling water in the prior month for the
21 Company based on a customer's water usage during that month, subject to the Applicant complying
22 with Findings of Fact Nos. 51 and 53 hereinabove.

23 8. The Commission, having reviewed the request for approval of the revisions to the
24 Company's Curtailment Tariff, concludes that it is in the public interest to approve the revised
25 Curtailment Plan Tariff as set forth in Exhibit "A" attached hereto.

26 **ORDER**

27 IT IS THEREFORE ORDERED that the application of Payson Water Company, Inc., for
28

1 approval of an emergency water augmentation surcharge tariff for its Mesa Del Caballo System, be,
2 and is hereby, approved to the extent described herein.

3 IT IS FURTHER ORDERED that the application of Payson Water Company, Inc., on behalf
4 of its Mesa Del Caballo System, shall recover its water hauling expenses as discussed hereinabove by
5 means of a water augmentation surcharge based on the prior month's cost of hauling water and based
6 on a customer's water usage during that month, but said authorization shall be conditioned upon
7 Payson Water Company, Inc. complying with the requirements of Findings of Fact No. 51.

8 IT IS FURTHER ORDERED that Payson Water Company, Inc. shall file an application for
9 permanent rate relief no later than one year from the effective date of this Decision.

10 IT IS FURTHER ORDERED that the emergency water augmentation surcharge approved
11 herein shall be interim and subject to refund pending the review by Staff of the permanent rate
12 application.

13 IT IS FURTHER ORDERED that Payson Water Company, Inc., on behalf of its Mesa Del
14 Caballo System shall, in a form approved by Staff, notify its customers by mail of the emergency
15 interim water augmentation surcharge authorized herein and the prospective effective date of same at
16 least 15 days before the expected date of its imposition.

17 IT IS FURTHER ORDERED that Payson Water Company, Inc. shall post a bond in the form
18 of a cashier's check in the amount of \$100.

19 IT IS FURTHER ORDERED that the emergency interim water augmentation surcharge shall
20 end when a Commission Decision is issued regarding the Company's permanent rate application.

21 IT IS FURTHER ORDERED that Payson Water Company, Inc. shall annually file as part of
22 its Annual Report an affidavit with the Utilities Division attesting that the Company is current in
23 paying its property taxes.

24 IT IS FURTHER ORDERED that Payson Water Company, Inc., on behalf of its Mesa Del
25 Caballo System, is hereby authorized to implement the revised Curtailment Plan Tariff, a copy which
26 is attached hereto as Exhibit "A."

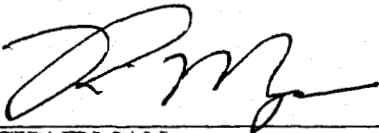
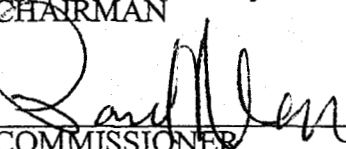

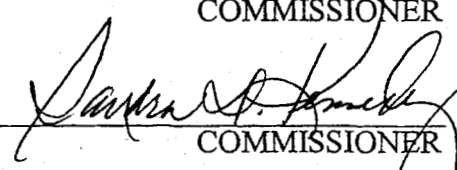
27 IT IS FURTHER ORDERED that Payson Water Company, Inc., on behalf of its Mesa Del
28 Caballo System, shall docket as a compliance item the revised Curtailment Plan Tariff as set forth in

1 Exhibit "A" attached hereto within 30 days of the effective date of this Decision.

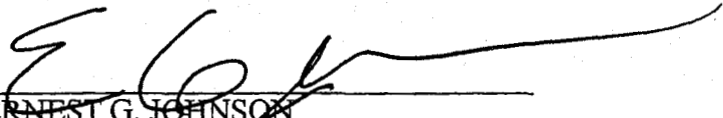
2 IT IS FURTHER ORDERED that Payson Water Company, Inc. on behalf of its Mesa Del
3 Caballo System, submit for Commission consideration within 120 days of the effective date of this
4 Decision, at least five Best Management Practices (as outlined in Arizona Department of Water
5 Resources' Modified Non-Per Capita Conservation Program). The Best Management Practices shall
6 generally follow the template contained on the Commission's website. A maximum of two of these
7 Best Management Practices may come from the "Public awareness/PR" or "Education and Training"
8 categories of the Best Management Practices. Payson Water Company, Inc. on behalf of its Mesa
9 Del Caballo System may request cost recovery of actual costs associated with the Best Management
10 Practices implemented in its next rate case.

11 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

13 
14
15 CHAIRMAN
16 
17 COMMISSIONER
18 
19 COMMISSIONER
20 
21 COMMISSIONER

22 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
23 Executive Director of the Arizona Corporation Commission,
24 have hereunto set my hand and caused the official seal of the
25 Commission to be affixed at the Capitol, in the City of Phoenix,
26 this 28th day of Sept., 2010.

27 
28 ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

26 DISSENT _____

27 DISSENT _____

28 MES:db

1 SERVICE LIST FOR:

PAYSON WATER COMPANY, INC. - MESA
DEL CABALLO SYSTEM

2 DOCKET NOS.:
3

W-03514A-10-0116 AND W-03514A-10-0117

4 Patrick J. Black
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EXHIBIT A
TARIFF SCHEDULE

DOCKET NO. W-03514A-10-0116 ET AL.

Utility: Payson Water Company, Inc.
Docket No. W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 1 of 8
Decision No.: _____
Effective: _____

CURTAILMENT PLAN FOR: PAYSON WATER CO., INC.

ADEQ Public Water System: Mesa Del Caballo (#04-030)

APPLICABILITY

Payson Water Company, Inc. (the "Company") is authorized by the Arizona Corporation Commission to curtail water service to all customers within its certificated area under the terms and conditions listed in this tariff. As needed, this tariff will be implemented by the Company for customers of the Mesa del Caballo water system ("Water System").

The curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of this tariff.

For the purposes of this curtailment plan the term "Peak Season" shall be defined as the period from May 1 through September 30 annually. The term "Off-Peak Season" shall be defined as all other periods not defined as Peak Season.

The Company shall provide a copy of the curtailment tariff to any customer, upon request.

EXEMPTIONS: Customers who use 4,000 gallons or less per month based on a twelve (12) month rolling average are exempt from the mandatory reduction in daily use requirements as outlined in Stage 3, Stage 4 and Stage 5 of this Tariff. This is because these customers are already leading a conservative water lifestyle, and mandatory percentage reductions will likely require the loss of use of water essential to health and safety. However, all other restrictions during mandatory conservation periods will still apply.

STAGES

Stage 1 Exists When:

Water System's storage level is 85% or more of capacity and there are no known problems with production or storage.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No. W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 2 of 8
Decision No.: _____
Effective: _____

Restrictions: Under Stage 1 conditions the water system is deemed to be operating normally and no curtailment is necessary, except as follows: (a) no outside watering is permitted on Mondays; (b) outside water is permitted on Tuesdays, Thursdays, and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays, Fridays, and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or any form of irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m.

Water Augmentation: Under Stage 1 conditions, no water augmentation is required.

Notice: Under Stage 1 conditions, no notice is required.

Stage 2 Exists When:

Water System's storage level is less than 85% of capacity but more than 70% of capacity for at least forty-eight (48) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 2 conditions **voluntary** conservation measures should be employed by customers to reduce water consumption by at least 20% as measured on a daily use basis. Further water use restrictions shall include: (a) no outside watering is permitted on Monday's, Thursdays, and Fridays; (b) outside water is permitted on Tuesdays and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m.

Water Augmentation: Under Stage 2 conditions no water augmentation is required.

Notice: Under Stage 2 conditions the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 2 conditions, and a need to conserve water.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No. W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 3 of 8
Decision No.: _____
Effective: _____

Stage 3 Exists When:

Water System's storage level is less than 70% of capacity but more than 60% of capacity for at least twenty-four (24) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 3 conditions **mandatory** conservation measures should be employed by customers to reduce water consumption; by at least 30% as measured on a daily use basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, and Fridays.; (b) outside water is permitted on Tuesdays and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m. Under Stage 3 conditions the Company shall inform customers of the Water System of the **mandatory** restriction to employ water conservation measures to reduce daily consumption by 30%. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 3 conditions, the following uses of water are strictly prohibited: (1) outdoor irrigation of lawns, trees, shrubs, or any plant life, except as otherwise provided herein; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind, except as otherwise provided herein; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other water intensive activity. Under Stage 3 conditions the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

Water Augmentation: Under Stage 3 conditions the Company will undertake reasonable measures to augment its well production until such time that Stage 2 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

Notice: Under Stage 3 conditions the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 3 conditions, and a need to conserve water.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
 Docket No. W-03514A-10-0117
 Phone No.: _____

Tariff Sheet No.: 4 of 8
 Decision No.: _____
 Effective: _____

Enforcement: Once the Company has properly provided notice of Stage 3 conditions, the failure of a customer to comply with this Curtailment Plan within twenty-four (24) hours of receiving notice of its violation of this Curtailment Plan may result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410 (B)(1)(d). The reconnection fee for a violation of a Stage 3 curtailment notice shall be:

First offense:	\$200
Second offense: (see also Reconnection Fees Section)	\$350
Third offense:	\$750

If a customer believes their water service has been disconnected in error, the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

Stage 4 Exists When:

Water System's storage level is less than 60% of capacity but more than 50% of capacity for at least twenty-four (24) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 4 conditions mandatory conservation measures should be employed by customers to reduce water consumption; by at least 40% as measured on a daily use basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, Fridays, and Sundays; (b) outside watering is permitted on Tuesdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m. Under Stage 4 conditions the Company shall inform customers of the Water System's mandatory restriction to employ water conservation measures to reduce daily water consumption by 40%. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 4 conditions the following uses of water are strictly prohibited: (1) outdoor irrigation of lawns, trees, shrubs, or any plant life, except as otherwise provided herein; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind, except as otherwise provided herein; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other water intensive activity. Under Stage 4

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
 Docket No. W-03514A-10-0117
 Phone No.: _____

Tariff Sheet No.: 5 of 8
 Decision No.: _____
 Effective: _____

conditions the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

Water Augmentation: Under Stage 4 conditions the Company will undertake reasonable measures to augment its well production until such time that Stage 3 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

Notice: Under Stage 4 conditions the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 4 conditions, and a need to conserve water.

Enforcement: Once the Company has properly provided notice of Stage 4 conditions, the failure of a customer to comply with this Curtailment Plan within twenty-four (24) hours of receiving notice of its violation of this Curtailment Plan may result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410 (B)(1)(d). The reconnection fee for a violation of a Stage 4 curtailment notice shall be:

First offense:	\$400
Second offense: (see also Reconnection Fees Section)	\$750
Third offense:	\$1,500

If a customer believes their water service has been disconnected in error the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

Stage 5 Exists When:

Water System's storage level is less than 50% of capacity for at least twelve (12) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 5 conditions, **mandatory** conservation measures should be employed by customers to reduce water consumption; by at least 50% as measured on a daily use basis. Under Stage 5 conditions no outside watering is permitted. Under Stage 5 conditions the Company shall inform customers of the Water System's **mandatory** restriction to employ water

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
 Docket No. W-03514A-10-0117
 Phone No.: _____

Tariff Sheet No.: 6 of 8
 Decision No.: _____
 Effective: _____

conservation measures to reduce daily consumption by 50%. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 5 conditions the following uses of water are strictly prohibited: (1) all outdoor watering; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other water intensive activity. Under Stage 5 conditions the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

Water Augmentation: Under Stage 5 conditions the Company will undertake reasonable measures to augment its well production until such time that Stage 4 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

Notice: Under Stage 5 conditions, the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 5 conditions, and a need to conserve water.

Enforcement: Once the Company has properly provided notice of Stage 5 conditions, the failure of a customer to comply with this Curtailment Plan within twelve (12) hours of receiving notice of its violation of this Curtailment Plan may result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410(B)(1)(d). The reconnection fee for a violation of a Stage 5 curtailment notice shall be:

First offense:	\$800
Second offense: (see also Reconnection Fees Section)	\$1,500
Third offense:	\$3,000

If a customer believes their water service has been disconnected in error the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No. W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 7 of 8
Decision No.: _____
Effective: _____

NOTICE

If the Company elects to provide customer water conservation stage notice by use of local sign postings the Company shall post and maintain at least two (2) signs per water system in noticeable locations that include the entrance to major subdivisions indicating the Company is operating under its Curtailment Plan Tariff, beginning with Stage 1. Each signs shall be at least four feet by four feet and color-coded to denote the current stage, as follows:

- Stage 1 - Green
- Stage 2 - Blue
- Stage 3 - Yellow
- Stage 4 - Orange
- Stage 5 - Red

The Company shall notify the Consumer Services Division of the Utilities Division at least;

- Twelve (12) hours prior to entering Stage 2.
- Six (6) hours prior to entering Stage 3.
- Six (6) hours prior to entering Stage 4.
- Four (4) hours prior to entering Stage 5.

RECONNECTION FEES

All reconnection fees shall be cumulative for a calendar year regardless of the Stage that an offense occurs. For example, if a customer fails to meet the requirements of a water conservation stage, observe required water conservation measures under a Stage 3 condition, and after receiving notice that a water conservation stage is in effect, the reconnection fee will be \$200. If the same customer in the same calendar year commits an offense under Stage 5 conditions, the reconnection fee shall be \$1,500. By May 15 and October 15 annually, the Company shall provide the Director of the Utilities Division with a list of customers who paid reconnection fees for failure to comply with the mandatory provisions of the Curtailment Plan Tariff.

Any customer who has service disconnected according to this Curtailment Plan Tariff more than once during a calendar year shall have those terminations count against them in the next calendar year for purposes of establishing the reconnection fee, should another disconnection occur.

TARIFF SCHEDULE

Utility: Payson Water Company, Inc.
Docket No. W-03514A-10-0117
Phone No.: _____

Tariff Sheet No.: 8 of 8
Decision No.: _____
Effective: _____

WATER CONSUMPTION CALCULATION OF "DAILY USE"

For the purpose of calculating "daily use" under the Restriction section of Stage 2, Stage 3, Stage 4, and Stage 5 water conservation conditions, the following definition shall apply:

Daily use is determined by taking the customer water meter reading today and subtracting from the customer's meter reading yesterday. This daily use amount is multiplied by 30 days to obtain a calculated monthly use. This monthly use is then compared to the higher of; (a) the immediately preceding month's actual water consumption, or (b) water consumption for the same month in any one of the two previous years for the same service location, to determine if the customer reduced his/her water consumption by at least the required Stage's percentage. The water customer should reduce their daily water consumption from the higher monthly water consumption of either (a) or (b).

Example: Customer meter reads 986654 today. Customer meter read 986354 yesterday. The difference in meter reads is 300 gallons for one day or 9000 gallons for 30 days. Customer actual use in the immediately preceding month was 7,000 (a) gallons. Customer's actual use in the same month in any one of the two previous years was 6,000 (b) gallons. Customer is in violation of Stage 3 mandatory water conservation conditions because his/her current "daily use" calculation is greater than his/her higher monthly use of (a) 7,000 gallons. Under Stage 3, the customer is required to reduce consumption by 30% of the 7000 gallons or 2,100 gallons, 7,000 - 2,100 is 4,900. So the customers daily use needs to be about 165 gallons per day.

ORIGINAL

MEMORANDUM

RECEIVED

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

2013 SEP 18 P 3:08

AZ CORP COMMISSION
DOCKET CONTROL

DATE: September 18, 2013

RE: STAFF REPORT FOR PAYSON WATER COMPANY, INC.'S
APPLICATIONS FOR A PERMANENT RATE INCREASE AND A
FINANCING APPROVAL. (DOCKET NOS. W-03514A-13-0111 AND W-
03514A-13-0142)

Attached is the Staff Report for Phase I of Payson Water Company, Inc.'s applications for a permanent rate increase and financing approval. Staff's recommendations address only Phase I of these proceedings. Staff recommends approval of the Phase I requested financing and the associated surcharge mechanism with conditions.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before September 23, 2013. A hearing on this matter is scheduled for September 25, 2013 at 10:00 a.m.

SMO:CSB:red

Originator: Crystal Brown



Arizona Corporation Commission

DOCKETED

SEP 18 2013

DOCKETED BY	112
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Service List for: Payson Water Company, Inc.
Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

PAYSON WATER COMPANY, INC.

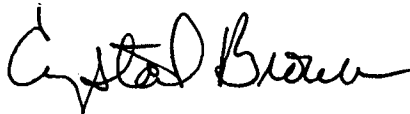
**DOCKET NOS.
W-03514A-13-0111 AND W-03514A-13-0142**

**APPLICATION
FOR A
PERMANENT RATE INCREASE
AND
FINANCING APPROVAL**

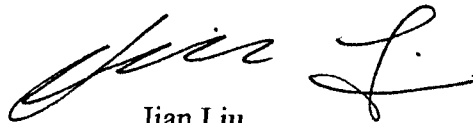
SEPTEMBER 18, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Payson Water Company, Inc., Docket Nos. W-03514A-13-0111 and W-03514A-13-0142, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the financial review and analysis of the Company's applications. Jian Liu was responsible for the engineering and technical analysis.



Crystal Brown
Public Utilities Analyst V



Jian Liu
Utilities Engineer

**EXECUTIVE SUMMARY
PAYSON WATER CO., INC.
DOCKET NOS.
W-03514A-13-0111 AND W-03514A-13-0142**

On April 22, 2013, Payson Water Company, Inc. ("Payson Water" or "Company") filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 17, 2013, Payson Water filed a request for approval of \$1,238,000 financing. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. According to the Company's motion, the Company is requesting expedited processing "so that it will be able to pursue an opportunity to build an interconnection between the Town of Payson and the Company's Mesa Del Caballo water system ("MDC").¹" The Company anticipates completing construction by May 2014 if it obtains financing of \$275,000 before the end of the year.

On September 5, 2013, a "Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule" was filed by the Company. This filing set forth the Company's and Staff agreement to bifurcate the proceeding. Staff will process the rate and financing applications under two phases. Phase I will only address the portion of the Company's financing application related to interconnecting the MDC system to the Town of Payson's water system. The Company's application for a rate increase and the remainder of its application for financing will be addressed in Phase II. Staff's recommendations contained herein only address Phase I of these proceedings.

Staff supports consideration of Phase I on an expedited basis because Staff supports the elimination of the Water Augmentation Surcharge that is currently in place for MDC. Billings to customers under the Water Augmentation Surcharge have drastically increased customers' bills. Staff believes the successful interconnection to the Town of Payson's water system before next summer provides a permanent solution to chronic and annual water shortages experienced by MDC and would obviate the need to haul water to supplement water supplies.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the Company's request to borrow up to \$275,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the purpose of financing the construction of a new water transmission line to connect its MDC system to the Town of Payson's water system.
2. Approval of a WIFA Loan Surcharge mechanism that may result in a surcharge of \$7.44 per month per MDC customer.

¹ Page 1, line 23 of motion to consolidate filed on August 15, 2013.

3. The immediate elimination of the Emergency Interim Water Augmentation Surcharge Tariff ("Water Augmentation Tariff") that is currently in effect for Payson Water's MDC system.
4. That the WIFA Loan Surcharge apply only to customers of the MDC system.
5. That the amount of the WIFA Loan Surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers in the MDC system.
6. That the Company file with the Commission a WIFA loan surcharge tariff that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
7. That the Company follow the same methodology presented on Schedule CSB-1 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using actual loan amounts and customer counts.
8. That the Company make a WIFA loan surcharge filing within 15 days of the loan closing.
9. That the Company record the WIFA loan surcharge proceeds as Contributions In Aid of Construction ("CIAC").
10. That the Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan.
11. That the Commission affirm in its Phase I order its intent to process Payson Water's rate case prior to the end of 2014 with a final decision resulting in a debt service coverage of 1.2 or greater for the resulting WIFA loan approval.
12. Approval of a new Purchased Water Adjustor, which is included as an attachment to this Staff Report, to allow for the purchase of water from the Town of Payson.
13. That the Company be required to post a bond or irrevocable letter or credit in the amount of \$10,000 prior to the implementation of the WIFA Loan Surcharge and Purchased Water Adjustor Surcharge authorized in this matter.
14. That the Company notify the MDC customers of the elimination of the Water Augmentation Surcharge and the creation of the WIFA Loan Surcharge and Purchased Water Adjustor by means of a bill insert in the next regularly scheduled billing after the Commission's decision in Phase I of this proceeding.

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PURCHASED WATER ADJUSTOR.....	3
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WIFA Loan Surcharge Calculation - Example.....	Schedule CSB-1
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BACKGROUND

Payson Water Company, Inc. ("Payson Water" or "Company") is an Arizona Class C utility engaged in the business of providing potable water service in portions of Gila County, Arizona. Payson serves approximately 1,114 customers.

In Decision No. 71902 (Sept. 28, 2010), the Commission approved an Emergency Interim Water Augmentation Surcharge Tariff ("Water Augmentation Surcharge") for Payson Water. The purpose of the Water Augmentation Surcharge was to allow the Company to recover the costs of hauling water to its Mesa Del Caballo ("MDC") system, which has experienced annual water shortages during the summer months in recent years. The Water Augmentation Surcharge only applies to customers served on the MDC system and is in effect only between May 1 and September 30 of each year. Decision No. 71902 required the Company to file a request to establish permanent rates.

On April 22, 2013, Payson filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 17, 2013, Payson filed a request for approval of \$1,238,000 financing. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. According to the Company's motion, the Company is requesting expedited processing "so that it will be able to pursue an opportunity to build an interconnection between the Town of Payson and" MDC.² The Company anticipates completing construction by May 2014 if it obtains financing of \$275,000 before the end of the year.

Customer Frustration with MDC Water Augmentation Surcharge

Consumer Services Staff has processed several informal complaints forwarded by the Commissioner offices this summer regarding the high cost of MDC's Water Augmentation Surcharge. Staff is aware of one MDC customer whose June 2013 bill was \$131.86 for a usage of 4,460 gallons. Of the \$131.86, approximately 75 percent or \$98.57 was for the Water Augmentation Surcharge. The next month the same customer reduced usage to 3,500 gallons, yet the July bill was \$161.21, \$128.45 of which was for water augmentation. Another MDC customer, a commercial customer, received a June 2013 bill of \$552.02, \$449.96 of which was for the Water Augmentation Surcharge. A redacted copy of these bills can be seen in Attachment A. Several articles were written in the Payson Roundup this summer concerning the situation.

On August 26, 2013, a Procedural Order was filed granting the Company's motion to consolidate the rate case and financing applications. Expediting the portion of the financing related to the construction of the interconnection with the Town of Payson ("Town") would

² Page 1, line 23 of motion to consolidate filed on August 15, 2013.

allow the Company to complete construction of the interconnection by May 2014. Staff believes that this portion of the Company's application provides a viable alternative to the continuation of MDC's Water Augmentation Surcharge. If the Company is able to construct the new water transmission line before next summer it could avoid the high cost of hauling water during the summer months and the Commission could immediately eliminate MDC's Water Augmentation Surcharge. Staff, therefore, concurs with the Company that expediting the portion of its financing application necessary to enable the construction of the new transmission line is in the public interest.

On September 5, 2013, a "Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule" was filed by the Company. This filing set forth the Company's and Staff agreement to bifurcate the proceeding. Staff will process the rate and financing applications under two phases. Phase I will only address the portion of the Company's financing application related to interconnecting the MDC system to the Town of Payson's water system. The Company's application for a rate increase and the remainder of its application for financing will be addressed in Phase II. Staff's recommendations contained herein only address Phase I of these proceedings.

WATER INFRASTRUCTURE FINANCING AUTHORITY OF ARIZONA ("WIFA") LOAN AND SURCHARGE

Payson Water estimates the cost to interconnect MDC to the Town of Payson's water system will be \$274,345. Staff has reviewed Payson Water's estimates and finds them to be reasonable and appropriate. A complete discussion of Staff's findings and recommendations concerning the Phase I of the financing application can be found in the attached Engineering Report. Staff recommends approval of the Company's request to borrow up to \$275,000 from WIFA to finance the construction of the new water transmission line.

In order to enable Payson Water to demonstrate the necessary financial capability to support up to a \$275,000 WIFA loan, Staff recommends the Commission approve a new WIFA loan surcharge for Payson Water. Due to the two-phase processing of the Company's financing application, Staff has performed an abbreviated analysis of the Company's financial condition and its ability to pay the \$275,000 loan. In order for the Company to satisfy debt service coverage requirements, Staff recommends the Commission approve the establishment of a new WIFA loan surcharge for Payson Water that would recover the monthly payments of principal, interest and fees, and debt service reserve associated with the WIFA loan. Staff also recommends that the Commission require Payson Water to place the monies collected via the WIFA loan surcharge in a segregated account, to be used only for making payments on the WIFA loan. Staff further recommends that WIFA loan surcharge monies be recorded as Contributions In Aid of Construction ("CIAC").

In order for Payson Water to receive financing from WIFA by the end of the year, it must submit its loan application with WIFA on or before October 25, 2013. Accordingly, Staff recommends the Commission issue an order on Phase I of Payson Water's financing application

at its regularly scheduled Open Meeting in October. WIFA has informed Staff that it would help establish Payson Water's financial capability to support its WIFA loan application if the Commission would, in its order on Phase I of Payson Water's application, commit to complete the processing of Payson Water's pending rate case (Phase II) before the end of 2014 with a final decision that provides Payson Water with a debt service coverage of 1.2 or greater for the WIFA loan. Staff recommends the Commission affirm in its Phase I order its intent to process Payson Water's rate case prior to the end of 2014 with a final decision resulting in a debt service coverage of 1.2 or greater for the final WIFA loan approval.

PURCHASED WATER ADJUSTOR

After constructing the interconnection line, Payson Water will need to recover the cost of the water it purchases from the Town of Payson. Staff recommends the Commission establish a Purchased Water Adjustor Surcharge on an interim basis in Phase I of this proceeding. The Purchased Water Adjustor Surcharge Staff recommends for adoption is presented as Attachment B. This surcharge will only apply to MDC customers.

INTERIM RATE RELIEF

Interim rates are rates charged by a utility for services or products pending the establishment of a permanent rate, in emergency situations or where a bond is posted that guarantees a refund to consumers for any excess paid them prior to the Commission's final determination.³ General conditions necessary for the imposition of interim emergency rates include:

1. A sudden change that causes hardship to a company
2. A company is insolvent, and
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.⁴

Interim rates can be imposed in the absence of an emergency situation.⁵ The customers of the Company's MDC water system have been subject to a water augmentation surcharge pursuant to Decision No. 71902 (September 28, 2010). As detailed above, MDC customers have experienced significant increases in the monthly bills because of the water augmentation surcharge. While the Attorney General's opinion is instructive, its focus is that of the health of the utility and not the burden faced by ratepayers. As noted in Decision No. 71902, the Company wells lack the capacity to provide water for its customers during the peak summer month.⁶ The opportunity to alleviate the burden to the ratepayer before next summer with the building of the interconnection with the Town of Payson is an exigent circumstance that warrants the extraordinary relief requested by the Company and supported by Staff.

³ *Scates v. Arizona Corp.* Commission 118 Ariz. 531, 578 P2d 612 (App. 1978)

⁴ Attorney General Opinion No. 71-17 (1971)

⁵ See *Pueblo Del Sol Water Company v Arizona Corporation Commission* 160 Ariz. 285, 772 P2d 1138 (1988);

⁶ Decision No. 71902 at 10.

The safeguards that are required for the implementation of interim relief are in place in this case. The Company's rate application is currently pending and the surcharge being proposed will be reviewed in the context of that application. Staff is recommending a bond or irrevocable letter of credit be posted. Staff recommends a bond of \$10,000. This bond level is reasonable because it represents approximately six months of collection of surcharge revenue.

PUBLIC NOTICE

By Procedural Order dated September 10, 2013, the Company was ordered to provide notice to its Mesa del Cabollo system customers by no later than September 20, 2013.

CALCULATION OF WIFA LOAN SURCHARGE

In light of the fact that the construction of the new water transmission line and the elimination of the Water Augmentation Surcharge both primarily benefit customers on Payson Water's MDC system, Staff recommends the new WIFA Surcharge apply only to customers of the MDC water system. These customers will receive an immediate financial benefit when the interconnection is constructed and the Water Augmentation Surcharge is eliminated.

The proposed \$275,000 financing is a 20-year amortizing loan at an interest rate of 4.99 percent. The payments are estimated to be \$1,815 per month, or \$21,779 annually, as shown on Schedule CSB-1. The surcharge also includes a provision for income taxes and the debt reserve deposit as shown on Step No. 8 on Schedule CSB-1.

The Company could begin collecting monies via the WIFA loan surcharge on the first month after Commission approval of the Company's WIFA loan surcharge filing (see Staff recommendation No. 8 below). Staff recommends that the Company calculate the surcharge needed to provide funds for the debt service on its loan as shown on Schedule CSB-1.

STAFF'S RECOMMENDATIONS

Staff recommends:

1. Approval of the Company's request to borrow up to \$275,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the purpose of financing the construction of a new water transmission line to connect its MDC system to the Town of Payson's water system.
2. Approval of a WIFA Loan Surcharge mechanism that may result in a surcharge of \$7.44 per month per MDC customer.
3. The immediate elimination of the Emergency Interim Water Augmentation Surcharge Tariff ("Water Augmentation Tariff") that is currently in effect for Payson Water's MDC system.

4. That the WIFA Loan Surcharge apply only to customers of the MDC system.
5. That the amount of the WIFA Loan Surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers in the MDC system.
6. That the Company file with the Commission a WIFA loan surcharge tariff that would enable the Company to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan.
7. That the Company follow the same methodology presented on Schedule CSB-1 to calculate the additional revenue needed to meet its principal, interest, debt reserve, and tax obligations on the proposed WIFA loan using actual loan amounts and customer counts.
8. That the Company make a WIFA loan surcharge filing within 15 days of the loan closing.
9. That the Company record the WIFA loan surcharge proceeds as Contributions In Aid of Construction ("CIAC").
10. That the Company place the WIFA loan surcharge proceeds in a segregated account, to be used only for making payments on the WIFA loan.
11. That the Commission affirm in its Phase I order its intent to process Payson Water's rate case with a final decision resulting in a debt service coverage of 1.2 or greater for the resulting WIFA loan approval.
12. Approval of a new Purchased Water Adjustor, which is included as an attachment to this Staff Report, to allow for the purchase of water from the Town of Payson.
13. That the Company be required to post a bond or irrevocable letter or credit in the amount of \$10,000 prior to the implementation of the WIFA Loan Surcharge and Purchased Water Adjustor Surcharge authorized in this matter.
14. That the Company notify the MDC customers of the elimination of the Water Augmentation Surcharge and the creation of the WIFA Loan Surcharge and Purchased Water Adjustor by means of a bill insert in the next regularly scheduled billing after the Commission's decision in Phase I of this proceeding.

WIFA LOAN SURCHARGE CALCULATION - EXAMPLE

Loan Amount: \$275,000
Term: 20 Years
Interest Rate Before Subsidy: 5.25%
WIFA Subsidy Rate: 95%
WIFA Interest rate (9.25% x 100%): 4.99% If interest rate is not found on TABLE A, use the next highest percentage

Step 1 - Find the Annual Payment on Loan

\$275,000 Total Amount of Loan
0.0792 TABLE A, Conversion Factor Table, Column B
\$21,778.54 Annual Principle and Interest Payment

Step 2 - Find the Annual Interest Payment on Loan

\$275,000 Total Amount of Loan
0.0493 TABLE A, Conversion Factor Table, Column C
\$13,563.43 Annual Interest Payment on Debt

Step 3 - Find the Annual Principal Payment on Loan

\$275,000 Total Amount of Loan
0.0299 TABLE A, Conversion Factor Table, Column D
\$8,215.11 Annual Principal and Interest Payment

Step 4 - Find the Gross Revenue Conversion Factor

1.76837222

Step 5 - Find the Incremental Income Tax Factor

1.76837 minus 1 = 0.76837

Step 6 - Find the Annual Income Tax Component of Surcharge Revenue

0.76837 Incremental Income Tax Factor (from Step 5)
\$8,215.11 Multiplied by: Annual Principal Payment on Loan (from Step 3)
\$6,312.26 Annual Income Tax Component of the Annual Surcharge Revenue

Step 7 - Find the Debt Service Component of the Annual Surcharge Revenue

\$13,563.43 Annual Interest Payment on Debt (from Step 2)
\$8,215.11 Plus: Annual Principal Payment (from Step 3)
\$21,778.54 Debt Service Component of the Annual Surcharge Revenue

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$6,312.26 Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)
\$21,778.54 Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 7)
\$4,355.71 Plus: Annual Reserve Fund Deposit [20% x Principal & Interest (From Step 1)]
\$32,446.51 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills

Equivalent Bills				
Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8" x 3/4" Meter	1	362	12	4,344
3/4" Meter	1.5	1	12	18
1" Meter	2.5	0	12	-
1 1/2" Meter	5	0	12	-
2" Meter	8	0	12	-
3" Meter	15	0	12	-
4" Meter	25	0	12	-
6" Meter	50	0	12	-
		363		4,362

Step 10 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$32,446.51 Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
4,362 Divided by: Total Number of Equivalent Bills
\$ 7.44 Monthly Surcharge for 3/4" Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers

Equivalent Bills				
Col A	Col B	Col C	Col D	
Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C	
5/8" x 3/4" Meter	1	\$ 7.44	\$ 7.44	
3/4" Meter	1.5	\$ 7.44	\$ 11.16	
1" Meter	2.5	\$ 7.44	\$ 18.60	
1 1/2" Meter	5	\$ 7.44	\$ 37.19	
2" Meter	8	\$ 7.44	\$ 59.51	
3" Meter	15	\$ 7.44	\$ 111.58	
4" Meter	25	\$ 7.44	\$ 185.96	
6" Meter	50	\$ 7.44	\$ 371.92	

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

Line No.	Column A Annual Interest	Column B Annual Payment Conversion Factor	Column C Annual Interest Payment Conversion Factor	Column D Annual Principal Payment Conversion Factor
1	3.50%	0.0696	0.0344	0.0352
2	3.75%	0.0711	0.0369	0.0342
3	4.00%	0.0727	0.0394	0.0333
4	4.25%	0.0743	0.0419	0.0324
5	4.50%	0.0759	0.0444	0.0316
6	4.75%	0.0775	0.0468	0.0307
7	5.00%	0.0792	0.0493	0.0299
8	5.25%	0.0809	0.0518	0.0291
9	5.50%	0.0825	0.0543	0.0283
10	5.75%	0.0843	0.0568	0.0275
11	6.00%	0.0860	0.0593	0.0267
12	6.25%	0.0877	0.0618	0.0259
13	6.50%	0.0895	0.0643	0.0252
14	6.75%	0.0912	0.0668	0.0245
15	7.00%	0.0930	0.0692	0.0238
16	7.25%	0.0948	0.0717	0.0231
17	7.50%	0.0967	0.0742	0.0224
18	7.75%	0.0985	0.0767	0.0218
19	8.00%	0.1004	0.0792	0.0211

Payson Water Company, Inc.

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Page 6

Attachment A

MDC CUSTOMER BILL EXAMPLES

Company Inc.

Statement

Blvd. Suite 229, Denver CO 80230

ifo@jwwater.com

-6084 Fax Number (855) 508-5507

ACCOUNT INFORMATION

Account Number:	
Statement #:	392601
Bill Date:	06/25/2013
Past Due Date:	07/10/2013

Service Address: MESA L289

Zone: 13-MDC

SPECIAL MESSAGE

"When we receive your check you authorize us to withdraw funds on the same day we receive payment". Unresolved billing disputes ACC-800-222-7000.

ACCOUNT ACTIVITY

Previous Balance	62.15
Payment - Thank you!	-62.15
Service Charge 5/8 x 3/4" Meter	16.00
Commodity Charge (4000.00 @ 0.00193)	7.72
Commodity Charge (460.00 @ 0.00299)	1.38
Water Augmentation (4460.00 @ 0.02210)	98.57
Gila County & AZ state tax	8.16
Commodity Tax / Usage tax	0.03
Total Amount Due	131.86

- 06/20/2013

478338-2

315,570

311,110

4,460

2013

013

013

Bill Date *June 25th 2013*
 Past Due *July 10th 2013*
 Disc Date *July 20th 2013*
AVOID DISCONNECTION FOR NON-PAYMENT

accordance with A.A.C. R14-2-409. Accordingly, your bill is DUE AND PAYABLE UPON RECEIPT and is due if not paid within 15 days of the BILL DATE shown above. Pursuant to A.A.C. R14-2-410(E), if this water bill is due on the BILL DATE, this water bill will serve as written notice that your service will be disconnected on or after the due date. No further disconnection notice will be sent to you. Reconnection of your water service may be subject to the Company's tariffs and as approved by the Arizona Corporation Commission. Please avoid late payment of your water bill. If you have further questions please contact our Customer Service Center at

KEEP THIS PORTION FOR YOUR RECORDS

ICE PORTION OF T

er Company Inc.

Statement

demmy Blvd. Suite 229, Denver CO 80230
 Email: info@jwwater.net
 Phone: 303-270-6084 Fax Number (855) 508-5507

ACCOUNT INFORMATION

Account Number:	
Statement #:	397631
Bill Date:	07/24/2013
Past Due Date:	08/08/2013

Service Address: MESA L289

Zone: 13-MDC

SPECIAL MESSAGE

"When we receive your check you authorize us to withdraw funds on the same day we receive payment". Unresolved billing disputes ACC-800-222-7000.

ES

2013 - 07/17/2013

478338-2

319,070

315,570

3,500

14, 2013

st 08, 2013

st 18, 2013

ACCOUNT ACTIVITY

Previous Balance	131.86
Payment - Thank you!	-131.86
Service Charge 5/8 x 3/4" Meter	16.00
Commodity Charge (3500.00 @ 0.00193)	6.76
Water Augmentation (3500.00 @ 0.03670)	128.45
Gila County & AZ state tax	9.98
Commodity Tax / Usage tax	0.02
Total Amount Due	161.21

Billed Date July 24th 2013
Past Due Date Aug 8th 2013
Disc Date Aug 18th 2013

AVOID DISCONNECTION FOR NON-PAYMENT

is in accordance with A.A.C. R14-2-409. Accordingly, your bill is DUE AND PAYABLE UPON RECEIPT and is due (as shown above) if not paid within 15 days of the BILL DATE shown above. Pursuant to A.A.C. R14-2-410(E), if this water bill is not paid by the BILL DATE, this water bill will serve as written notice that your service will be disconnected on or after the BILL DATE shown above. No further disconnection notice will be sent to you. Reconnection of your water service may be subject to the Company's tariffs and as approved by the Arizona Corporation Commission. Please avoid service interruption by timely paying your water bill. If you have further questions please contact our Customer Service Center at 303-270-6084.

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS REMITTANCE PORTION OF THE BILL WITH YOUR PAYMENT

Mark on your check
 JWWater Co., Inc.

PAST DUE
CHARGES

CURRENT CHARGES

TOTAL DUE

AMOUNT ENCLOSED

Payson Water Company Inc.

Statement

Mailing Address: 7581 E Academy Blvd. Suite 229, Denver CO 80230
 Email Address: info@jwwater.com
 Customer Service Call Center (800) 270-6084 Fax Number (855) 508-5507
CONFIRMATION

PAYSON, AZ 85541-9741

PAID \$500 7/18/13
CONFIRMATION 5394832329

ACCOUNT INFORMATION

Account Number: [REDACTED]
 Statement #: 392542
 Bill Date: 06/25/2013
 Past Due Date: 07/10/2013

Service Address: MESA P15G
 Zone: 13-MDC

SPECIAL MESSAGE

"When we receive your check you authorize us to withdraw funds on the same day we receive payment". Unresolved billing disputes ACC-800-222-7000.

METER READINGS

SERVICE DATES 05/16/2013 - 06/20/2013
 METER NUMBER 60648097
 CURRENT READ 3,018,110
 PREVIOUS READ 2,997,750
 GALLONS USED 20,360

Bill Date: June 25, 2013
 Past Due: July 10, 2013
 Disconnection Date: July 20, 2013

PAID \$500 7/19/13
CONFIRMATION # 5398391800

ACCOUNT ACTIVITY

Previous Balance	204.80
Payment - Thank you!	-210.00
Service Charge 5/8 x 3/4" Meter	16.00
Commodity Charge (4000.00 @ 0.00193)	7.72
Commodity Charge (16360.00 @ 0.00299)	48.92
Water Augmentation (20360.00 @ 0.02210)	449.96
Gila County & AZ state tax	34.49
Commodity Tax / Usage tax	0.13
Total Amount Due	552.02

AVOID DISCONNECTION FOR NON-PAYMENT

Your water bill has been rendered in accordance with A.A.C. R14-2-409. Accordingly, your bill is DUE AND PAYABLE UPON RECEIPT and is considered PAST DUE (see date above) if not paid within 15 days of the BILL DATE shown above. Pursuant to A.A.C. R14-2-410(E), if this water bill remains unpaid 25 days following the BILL DATE, this water bill will serve as written notice that your service will be disconnected on or after the DISCONNECTION DATE shown above. No further disconnection notice will be sent to you. Reconnection of your water service may be subject to additional fees and penalties as provided by the Company's tariffs and as approved by the Arizona Corporation Commission. Please avoid disconnection and additional fees by timely paying your water bill. If you have further questions please contact our Customer Service Center at (800) 270-6084.

KEEP THIS PORTION FOR YOUR RECORDS

Please include your account number on your check
 Make check payable to: Payson Water Co., Inc.

Payment Coupon

Service Address: MESA P15G

HOUSTON MESA GEN ST
 8157 WEST DEADEYE RD
 PAYSON, AZ 85541-9741

DETACH AND RETURN THIS REMITTANCE PORTION OF THE BILL WITH YOUR PAYMENT

PAST DUE CHARGES	CURRENT CHARGES	TOTAL DUE	AMOUNT ENCLOSED
-5.20	557.22	552.02	
			Check Number

Account Number: 58130-16615
 Statement #: 392542
 Bill Date: 06/25/2013
 Due Date: 07/10/2013

Please Remit To:

Payson Water Company, Inc.
 c/o JW Water Holdings, LLC
 7581 E Academy Blvd. Suite 229
 Denver, CO 80230

Bill is due and payable when rendered and delinquent after the due date.
 For any previous balance that is overdue a delinquent charge is assessed and this location is subject to disconnect.



16,247 GAL AUGMENT @ DRE 142

Payson Water Company, Inc.

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Page 7

Attachment B

PURCHASED WATER ADJUSTOR TARIFF

PURCHASED WATER ADJUSTOR

I. Purpose and Applicability

The purpose of this tariff is to equitably apportion the costs of water purchased through an interconnection with the Town of Payson among Mesa Del Caballo customers. These charges are applicable to all connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Company" means Payson Water Company, Inc.

"Purchased Water Cost" means the actual cost billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Quantity" means the actual quantity (in thousands of gallons) of water billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Surcharge" means the surcharge calculated in accordance with Section IV below.

"Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system.

III. Surcharge Rate Calculation

For each month that the Company purchases water from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system, the Company will calculate the Surcharge Rate per the following example when all water is purchased from the Town of Payson.

Example (For Illustrative Purposes Only) - All water is purchased from the Town of Payson

A customer uses 4,500 gallons of water.

The commodity cost being billed by Payson Water Company to this customer would be \$8.71 calculated as follows:

Per 1,000 Gallons				
0 to 4,000	\$1.93	4.0 x \$1.93	=	\$7.72
Over 4,000	\$2.99	0.5 x \$2.99	=	\$0.99
				\$8.71

The commodity cost billed from the Town of Payson would be:

Per 1,000 Gallons				
All Gallons	\$2.75	4.5 x \$2.75	=	\$12.37

The surcharge for this customer would be:

Purchased Water Cost		Water Cost Per Company's Approved Tariff		Surcharge
\$12.75	-	\$8.71	=	\$3.66

Attachment C of this Staff Report provides examples of the surcharge calculation when less than 100 percent of all water is purchased from the Town of Payson.

IV. Terms and Conditions

(A) Assessment and Billing of Purchased Water Surcharge: For any month in which water is purchased from the Town of Payson, after completing its billing for the month and receiving the Town's billing for the month, Payson will make the surcharge calculation to determine the Surcharge Rate.

In the following month, Payson will bill the Purchased Water Surcharge to its customers. Each individual customer's billing for the Purchased Water Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from the Town) times the Surcharge Rate.

The Purchased Water Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which the Company intends to bill customers a Purchased Water Surcharge, the Company shall provide Commission Staff notice of the Company's intent to bill the Purchased Water Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the Town of Payson.
4. A schedule showing the calculation of the Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

Attachment C

**PURCHASED WATER SURCHARGE
EXAMPLE CALCULATIONS –
WHEN LESS THAN 100 PERCENT
OF ALL WATER PURCHASED
FROM THE TOWN OF PAYSON**

Surcharge Calculation Example

Examples assume that 25% of total water purchased from the Town of Payson

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

Example 2 - High Usage Customer

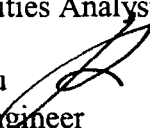
This example illustrates how the surcharge would be calculated for a customer using 25,000 gallons; 75% (or 18,750) from Payson Water Company and 25% (or 6,250) from the Town of Payson.

***Excludes Taxes**

MEMORANDUM

DATE: September 10, 2013

TO: Crystal Brown
Public Utilities Analyst V

FROM: Jian W. Liu 
Utilities Engineer

RE: Payson Water Company
Application for a Permanent Rate Increase and Financing Approval
Docket Nos. W-03514A-13-0111 (Rates) AND W-03514A-13-0142
(Financing)

Introduction and Background

On April 22, 2013, Payson Water Company, Inc. ("PWC" or "Company") filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On May 17, 2013, PWC filed a request for approval of \$1,238,000 financing. On June 3, 2013, Staff deemed the rate application sufficient. On August 15, 2013, the Company filed a motion to consolidate the rate case and financing applications and to expedite the processing of those applications. On August 26, 2013 the two applications were consolidated. PWC seeks expedited approval to borrow up to \$275,000 of the total financing so it can build a line to connect the Town of Payson system to PWC's Mesa del Caballo system before next summer.

On September 5, 2013, PWC and the Utilities Division ("Staff") of the Commission filed a Stipulation for Procedural Order Bifurcating Proceeding and Establishing Case Schedule. According to the Stipulation, the first phase of the proceeding ("Phase I") would involve consideration of PWC's request for expedited financing approval along with approval of certain interim rate relief in the form of rate surcharges and/or adjustors in order to construct a new water transmission line to connect its Mesa del Caballo system to the Town of Payson water supplies. Because of the dire need for water in the Mesa del Caballo area coupled with the present opportunity to end water hauling by next summer, Staff agrees with the expedited treatment of this portion of the financing. The second phase ("Phase II") would involve (1) the remainder of the Company's request for financing approval; and (2) establishing the fair value of PWC's plant and property used for providing water utility service and setting permanent rates thereon designed to produce a fair return on such fair value rate base and the resolution of any remaining issues, if any, with the expedited financing request.

Cost Estimates for Phase I Financing

On September 10, 2013, PWC submitted its cost estimates to build a line to connect the Town of Payson water system to PWC's Mesa del Caballo water system.

ITEM DESCRIPTION	TOTAL COST
1. Water Main Construction	\$ 172,650
2. Fees, Legal, Permits, Testing, Admin, Etc.	\$ 57,695
3. Engineering Services	<u>\$ 24,000</u>
 TOTAL PROJECT BUDGET	 \$ 254,345
CONTINGENCY	<u>\$ 20,000</u>
 TOTAL BUDGET ALLOCATION	 \$ 274,345

Staff has reviewed PWC proposed pipeline cost of \$274,345 and found the proposal reasonable and appropriate. However, no "used and useful" determination of the proposed plant items was made, and no conclusions should be inferred for rate making or rate base purposes in the future.

**PERCENTAGE OF REVENUE
GENERATED FROM MINIMUM & COMMODITY RATES
FOR PAYSON WATER COMPANY
UNDER PRESENT RATES**

	Per Bill Count	
Minimum	\$ 244,302	70%
Commodity	105,349	30%
	349,651	Agrees to Company's Schedule H-1, Line 8



	No. of Bills		Monthly Minimum	
5/8x3/4 Inch US	12,793	x	\$ 16.00	= \$ 204,688.00
5/8x3/4 Inch C&S	1,906	x	\$ 17.00	= \$ 32,402.00
3/4 Inch US	52	x	\$ 18.40	= \$ 956.80
1 Inch US	246	x	\$ 21.28	= \$ 5,234.88
1 Inch C&S	24	x	\$ 42.50	= \$ 1,020.00
				<u>\$ 244,301.68</u>

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7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 IN THE MATTER OF THE APPLICATION
9 OF PAYSON WATER CO., INC., AN
10 ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR VALUE
12 OF ITS UTILITY PLANTS AND
13 PROPERTY AND FOR INCREASES IN ITS
14 WATER RATES AND CHARGES FOR
15 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

16 IN THE MATTER OF THE APPLICATION
17 OF PAYSON WATER CO., INC., AN
18 ARIZONA CORPORATION, FOR
19 AUTHORITY TO: (1) ISSUE EVIDENCE
20 OF INDEBTEDNESS IN AN AMOUNT
21 NOT TO EXCEED \$1,238,000 IN
22 CONNECTION WITH INFRASTRUCTURE
23 IMPROVEMENTS TO THE UTILITY
24 SYSTEM; AND (2) ENCUMBER REAL
25 PROPERTY AND PLANT AS SECURITY
26 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

27 **SUPPLEMENTAL DIRECT TESTIMONY**

28 **TESTIMONY OF**
29 **JASON WILLIAMSON**

30 **August 15, 2013**



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1 **I. INTRODUCTION, QUALIFICATIONS, PURPOSE AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jason Williamson. My business address is 7581 E. Academy
4 Boulevard, Suite 229, Denver, Colorado 80230.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of the Applicant, Payson Water Co., Inc. ("PWC" or the "Company").

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I'm Manager of JW Water Holdings, LLC, a Colorado limited liability company
9 ("JW Water"). On May 31, 2013, JW Water acquired three utility companies from
10 Brooke Utilities, Inc. ("BUI"), including PWC. As of June 1, 2013, PWC is owned
11 and operated by JW Water as are the other two utilities, Tonto Basin Water and
12 Navajo Water.

13 **Q. DO YOU HAVE ANY PREVIOUS EXPERIENCE WITH OWNING AND**
14 **OPERATING UTILITIES?**

15 A. I'm also affiliated with Pivotal Utility Management, LLC ("Pivotal").
16 Pivotal manages and/or operates a total of ten water and sewer utilities, eight of
17 which are in Arizona, seven of them regulated by the Commission. The largest is
18 Coronado Utilities, which provides sewer utility service in San Manuel, Arizona.
19 We also own and operate Verde Santa Fe Wastewater that is located near
20 Cottonwood. The Commission has requested that Verde Santa Fe also file a rate
21 case that we are currently in the process of preparing for filing.

22 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES FOR THE UTILITIES**
23 **AND HOLDING COMPANIES.**

24 A. I oversee the day-to-day operations and business management functions for
25 JW Water and Pivotal, including providing contract management services for a
26 number of water and sewer system operations.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

2 A. Yes, the last time being for Coronado Utilities.

3 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT
4 TESTIMONY?

5 A. The overarching purpose is to urge the Commission to consolidate PWC's pending
6 rate and financing applications and expedite approval of new rates and financing
7 approval so that we can solve the Mesa del Caballo water shortage crisis before we
8 have to haul again in 2014.

9 Q. EXCUSE ME, MR. WILLIAMSON, BUT THAT'S QUITE A
10 PROPOSITION.

11 A. I know. I will explain in further detail in this testimony but the *Reader's Digest*
12 version is that right after JW Water acquired the Company we discovered a way to
13 connect the Town of Payson (the "Town") water system directly into the system
14 serving Mesa del Caballo. Unfortunately, the Company cannot afford to build this
15 line without financing approval and new rates. In other words, if the new owners
16 are going to have a chance to improve Mesa del Caballo's water supply situation
17 before next year's augmentation period, we need the Commission's help and we
18 need it fast.

19 Q. HOW WOULD CUSTOMERS BENEFIT FROM THIS ACCELERATED
20 SCHEDULE AND CONSTRUCTION OF A NEW LINE BEFORE NEXT
21 YEAR'S AUGMENTATION PERIOD?

22 A. If we stay on the current procedural schedule, we will not have a decision in the
23 rate case until next summer. That means construction on the project would not
24 start until some time next year, more than likely after we have had to haul for
25 another summer.

26

1 Q. BUT DON'T YOU JUST NEED FINANCING APPROVAL TO BORROW
2 THE MONEY TO BUILD THE LINE?

3 A. No. Without new rates, including a debt service surcharge, it would be imprudent
4 to take on additional debt. The Company already faces severe financial constraints,
5 as evidenced by its request for a substantial rate increase. But, if we consolidate
6 and expedite the cases, approval of financing and new rates would allow us to
7 begin construction sooner, and we could have the line connecting Mesa del Caballo
8 to the Town's water system in place before next summer. Summer is the key factor
9 in our customers' discontent, because that's when water use exceeds our well
10 capacity, causing us to haul water from the Town into our system, and charge our
11 customers the high augmentation surcharges as a result -- we are seeing bills of
12 around \$150 for 7,000 gallons of use because of hauling charges.

13 II. MESA DEL CABALLO

14 Q. OBVIOUSLY SOMETHING CHANGED SINCE THE RATE CASE WAS
15 FILED. CAN YOU PLEASE UPDATE THE COMMISSION ON WHAT
16 HAS TRANSPIRED?

17 A. As I mentioned, JW Water purchased the stock of three water companies from
18 Brooke Utilities in a transaction that closed about a month after the PWC rate case
19 filing deadline set by this Commission. I took over day-to-day management of the
20 Company from Mr. Hardcastle, who previously filed direct testimony, which
21 testimony I will be adopting. It didn't take long for me to become immersed in the
22 water shortages impacting Mesa del Caballo.

23 Q. WHAT IS MESA DEL CABALLO?

24 A. It is both the name of a residential community or subdivision in the Company's
25 CC&N, and the name of the water system that serves that community. There are
26 approximately 400 customers connected to that system.

1 **Q. WHAT IS THE PROBLEM WITH MESA DEL CABALLO'S WATER**
2 **SUPPLY?**

3 A. While I'm new to this system, and certainly no expert in hydrology, I have learned
4 from Steve Noel at Southwest Groundwater Consulting, that there is essentially no
5 aquifer below Mesa Del Caballo. Mr. Noel documented that the subdivision is
6 built on a solid granite outcropping where water trickles through cracks in the
7 granite. This makes drilling wells (especially deep ones) a very risky (and
8 expensive) proposition. As a result of this condition, and the unpredictability of
9 many of the wells in the subdivision, PWC has been forced to augment supply by
10 hauling water into the system during the summer. Such hauling occurs pursuant to
11 the emergency curtailment and water augmentation tariffs the Commission ordered
12 in Decision No. 71902 (September 28, 2010).

13 **Q. WHAT STEPS HAVE BEEN TAKEN TO COMBAT THIS WATER**
14 **SUPPLY CRISIS?**

15 A. Mr. Hardcastle's direct testimony contains a description of the system's
16 improvements that were made before the rate case was filed, as well as a specific
17 discussion of the problems related to the Mesa del Caballo system.¹
18 To summarize, after researching all available options, and in particular,
19 determining that further well drilling was not economically feasible, the Company
20 turned its attention to working with the Town on the Cragin Pipeline Project.

21 **Q. WHAT IS THE CRAGIN PIPELINE PROJECT?**

22 A. It is a project that is being spearheaded by the Town to bring new water to the
23 Town and surrounding areas. Specifically, the Cragin Pipeline would bring water
24 from Salt River Project's C.C. Cragin reservoir, located about 25 miles northeast of
25 Payson. The Cragin Pipeline route and the Town's new water treatment system are

26 ¹ Direct Testimony of Robert T. Hardcastle at 4:16 – 5:11, 6:15 – 7:14.

1 located literally across the street from Mesa del Caballo.² Our agreement with the
2 Town and SRP (the owner of the Cragin Reservoir) allows PWC to interconnect
3 and give PWC access to as much as 72 acre-feet of renewable water supplies
4 annually. The entire project is estimated to cost roughly \$1,238,000.³

5 **Q. WHAT IS THE ANTICIPATED COMPLETION DATE OF THE CRAGIN**
6 **PIPELINE?**

7 A. According to the Town, completion of the Cragin Pipeline and the associated water
8 treatment plant are scheduled for September of 2016.

9 **Q. THEN WHAT'S THE URGENCY?**

10 A. We have the opportunity to take advantage of a change in the Town's Cragin
11 construction project, which is already about 25% complete. The change was that
12 the Town decided to build the section of pipeline that runs from the current Town
13 water distribution system to Mesa del Caballo (about 3.5 miles) now.
14 Town engineers explained that while that pipeline is designed to send water from
15 the Cragin reservoir to the Town once the pipeline and water treatment facility are
16 completed, the pipeline can actually function in the reverse direction – the Town
17 can flow water from its storage facilities, out to Mesa del Caballo. As a result, the
18 Town water will be available to be used in the Mesa del Caballo system, and the
19 Town is hoping that PWC will connect to and establish a new, permanent water
20 service connection that will be available by May 2014.

21 The opportunity to possibly provide a permanent solution to the water
22 shortages through construction of what we now refer to as the TOP-MDC line
23 *prior* to next year's augmentation cycle is what is driving this urgent request.
24

25 ² *Id.* at 10:6-7.

26 ³ *Id.* at 10:7-10.

1 Q. YOU SAID "POSSIBLY." IS THERE UNCERTAINTY?

2 A. The uncertainty does not refer to whether the line can bring the water, once built,
3 or whether the Town has sufficient water available. The uncertainty lies in the
4 regulatory process the Company must go through to build, finance and pay for the
5 costs to build the project and then operate it so we can improve the situation.

6 **III. THE TOP-MDC LINE**

7 Q. PLEASE DESCRIBE WHAT YOU REFER TO AS THE TOP-MDC LINE.

8 A. There are two portions to the TOP-MDC line. Portion one is the section currently
9 being constructed by the Town that will bring their water service/ distribution
10 system to the doorstep of Mesa del Caballo. This portion is the responsibility of
11 the Town and does not involve PWC. Portion two is the installation of a pipeline
12 crossing Houston Mesa Rd. from the termination of the Town line, into the Mesa
13 del Caballo subdivision, connecting to the water system's main storage tank
14 facilities. This portion would be the cost and responsibility of PWC.

15 Q. WHERE WILL THE WATER COME FROM?

16 A. The Town. It is the same water we are buying now and paying a trucking company
17 to haul to Mesa del Caballo during the augmentation period.

18 Q. HOW DID THIS PROJECT IDEA COME ABOUT?

19 A. It came out of a meeting with representatives from the Town the day after I
20 purchased PWC. Bob Hardcastle introduced me to them, and we started talking
21 about the delay in the Cragin project (from 2015 to 2016) and the possible
22 solutions for Mesa del Caballo in the interim period.

23 Q. WHEN CAN THIS PROJECT BE BUILT?

24 A. It depends on the date we receive a final decision on the rate case and financing
25 application. We can begin construction within weeks of the decision, and we are
26 estimating the entire portion 2 project will take between 8 and 12 weeks.

1 Q. WHAT IS THE ESTIMATED TOTAL COST TO BUILD THE TOP-MDC
2 LINE?

3 A. We have estimated the cost of portion 2 to be approximately \$250,000. However,
4 that estimate will depend on when we can give the contractor(s) the go-ahead.

5 IV. FINANCING THE TOP-MDC PIPELINE

6 Q. HOW DOES THE COMPANY PLAN TO PAY FOR THE INSTALLATION
7 OF THE TOP-MDC PIPELINE?

8 A. We will have to wait until we get WIFA funding in place to do that work, which is
9 why we are so keen to expedite. If, for example, we have financing
10 authorization/rate approval from the Commission by year-end, we would then
11 proceed to authorize the construction of portion 2, which will take 8-12 weeks to
12 complete. That is about the same time WIFA will need to complete approval of
13 our pre-authorized financing, and to supply our first tranche of funding. So, this
14 sort of schedule would give us a small margin of error in our effort to have this
15 new water line available before May 2014, when, absent the TOP-MDC line, we
16 would expect to have to haul again.

17 As you know from our financing application, we have WIFA financing
18 lined-up related to all of the Cragin pipeline project and that financing can be taken
19 down in phases with the first phase being used to build portion 2 of the TOP-MDC
20 line. Keep in mind that portion 2 would need to be built for the Cragin facility
21 anyhow; so this is not a new capital expenditure, it is simply expediting one part of
22 the total project to take advantage of an opportunity to solve the water shortage
23 issue within months, instead of years. And the result would be avoiding water
24 hauling costs next summer, which would mean a lot to our customers.

1 Q. SO YOU NEED COMMISSION APPROVAL TO BORROW THE MONEY
2 FROM WIFA?

3 A. Yes, we cannot borrow money for any portion of this project without Commission
4 approval. If we don't get Commission approval for several months, not only will
5 the line likely cost more, but it will not be available before the summer 2014.

6 Q. CAN'T THE SHAREHOLDER FUND IT WITH EQUITY CAPITAL?

7 A. Unfortunately no. JW Water Holdings purchased PWC with the expectation that
8 funding for the Cragin project would be done using debt from WIFA. This is the
9 least expensive route for our customers as well, and is consistent with our current
10 filings, so there seems no good reason to change horses at this stage.

11 Q. HOW WILL THE COMPANY PAY FOR THE WATER?

12 A. Hopefully through our rates. That's why just getting financing approval and a debt
13 service surcharge is not sufficient. Right now we pay for the water we haul under
14 the augmentation surcharge. We will need a rate structure that includes the cost of
15 servicing the debt and paying the cost of the water we purchase from the Town.
16 Otherwise, as I have testified, we simply cannot afford to do this project.

17 V. SUMMARY OF RELIEF REQUESTED

18 Q. SO WHAT EXACTLY DOES THE COMPANY WANT FROM THIS
19 COMMISSION?

20 A. The motion we filed and to which my testimony is attached identifies the relief
21 requested in more detail. To summarize, first we need the Commission to
22 consolidate the two applications – financing and rate case – and then we need them
23 expedited. We need the approval to borrow and then rates that will allow us to pay
24 our bills, including the new debt service and the cost of the water.

25

26

1 Q. WHEN DO YOU NEED ALL THIS BY?

2 A. As stated in my earlier example, approval by year-end should provide sufficient
3 time to construct portion 2 and obtain the first tranche of WIFA financing by the
4 end of first quarter 2014. This sort of timeline will allow us to meet the stated goal
5 of this whole request: To have the TOP-MDC pipeline in service *prior* to the 2014
6 augmentation period (which begins in May, 2014).

7 Q. YOU DO RECOGNIZE THAT YOU ARE ASKNG A LOT OF THE
8 COMMISSION, DON'T YOU MR. WILLIAMSON?

9 A. I do, but this is an extraordinary opportunity to address a serious problem. If we
10 retain the existing schedule, we will have (at least) one more summer of water
11 hauling and the consternation that goes with the high costs. This is a unique
12 situation that requires extraordinary and cooperative efforts to solve. The Town,
13 the Commission, and the Company have the opportunity to work together and
14 bring about a solution that avoids another summer of hauling but to seize the
15 opportunity we have to move a lot more quickly than the current schedule provides.

16 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT
17 TESTIMONY?

18 A. Yes.
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DOCKET NO: W-03514A-13-0111

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16 SYSTEM; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
17 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

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20 **RESPONSIVE TESTIMONY OF**
21 **JASON WILLIAMSON**
22

23 **September 23, 2013**
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25
26

EXHIBIT

A-2

ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY 1
II. RESPONSE TO STAFF’S REPORT AND RECOMMENDED CONDITIONS 3

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1 **I. INTRODUCTION, PURPOSE AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jason Williamson. My business address is 7581 E. Academy
4 Boulevard, Suite 229, Denver, Colorado 80230.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

6 A. On behalf of the Applicant, Payson Water Co., Inc. ("PWC" or the "Company").

7 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes, my prefiled direct testimony was submitted in August in support of the
10 Company's request to consolidate and expedite the financing and rate applications.

11 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

12 A. To respond to the Staff Report for Phase I filed on September 18, 2013.

13 **Q. WOULD YOU PLEASE SUMMARIZE THE COMPANY'S RESPONSE TO**
14 **THE STAFF REPORT?**

15 A. The Company agrees with Staff on what appears to be the most important point:
16 "the opportunity to alleviate the burden to the ratepayer before next summer with
17 the building of the interconnection with the Town of Payson is an exigent
18 circumstance that warrants the extraordinary relief requested by the Company and
19 supported by Staff."¹ However, Staff's support comes with conditions. Some of
20 those conditions would cause harm to the Company.

21 First, is the recommendation that the Company's Emergency Interim Water
22 Augmentation Surcharge Tariff ("Water Augmentation Tariff") be "immediately"
23 eliminated. Second, is the recommendation that the Company record the WIFA
24 loan surcharge proceeds as Contributions in Aid of Construction ("CIAC").²

25 ¹ Staff Report at 3.

26 ² This problem of CIAC treatment of the surcharge proceeds is explained in more detail in the Responsive Testimony
of Thomas J. Bourassa. Mr. Bourassa also addresses the Company's concerns over the methodology used in

1 Neither of these conditions is necessary for the Company to accomplish the goal
2 here – construction of the interconnection between our Mesa del Caballo (MDC)
3 system and the Town of Payson's water supplies (the "Interconnection"). As a
4 result, I will offer an alternative approach regarding the augmentation tariff that
5 would limit the significant downside risk to the Company.

6 **Q. DOES THE COMPANY HAVE ANY OTHER CONCERNS WITH THE**
7 **STAFF REPORT?**

8 A. Yes. First, in the purchased water surcharge Staff used in its examples is \$2.75 per
9 1000 gallons as the commodity cost of the water to be purchased from the Town.³
10 I suspect Staff got that number from the Company's rate application, but that
11 number relates to water from the Cragin pipeline, which is not completed or in
12 service. The water we purchase now from the Town and the water we will deliver
13 through the Interconnection is currently priced by the Town at approximately \$7.48
14 per 1000 gallons. This is not a special rate – it is the rate that the Town of Payson
15 also charges the Tonto Apache Tribe, and two of the Payson schools. When the
16 Cragin pipeline begins operation (estimated to be in 2016) the cost is anticipated to
17 go down to \$2.75); but the \$7.48 is the current Town rate over which we have no
18 control.

19 Second, in its report Staff states that the Commission should affirm it will
20 decide the rate case by the "end of 2014." While this language is not repeated in
21 the actual condition (Staff Condition No. 11), I am concerned it will cause
22 confusion. To be absolutely clear, the only reason we concluded that we could
23 proceed to build the Interconnection without an interim increase in our overall
24 revenue requirement, was Staff's stipulation and Judge Nodes' approval of a

25
26 Staff's proposed purchased water adjuster.

³ Staff Report at Attachment C.

1 procedural schedule that will have the new rates in place by May 1, 2014. I really
2 cannot overstate the dire financial condition this Company is in at this time and the
3 absolute necessity of completing the general rate case in accordance with the
4 timeframe in the existing procedural order (i.e., final Commission decision and
5 rates in place by May 1, 2014.)

6 **II. RESPONSE TO STAFF'S REPORT AND RECOMMENDED CONDITIONS**

7 **A. Immediate Elimination of the Water Augmentation Tariff**

8 **Q. WHAT EXACTLY DOES STAFF RECOMMEND?**

9 A. Staff's Condition No. 3 calls for the "immediate elimination" of the Water
10 Augmentation Tariff.⁴

11 **Q. WHAT DID THE COMPANY RECOMMEND WITH RESPECT TO THE**
12 **WATER AUGMENTATION TARIFF?**

13 A. Nothing in this stage of the proceeding. We are seeking approvals needed so we
14 can build a transmission line that we expect will, at a minimum, dramatically limit
15 and hopefully eliminate the need to regularly haul water to MDC.

16 **Q. SO YOU AGREE THAT ELIMINATING THE WATER AUGMENTATION**
17 **TARIFF IS A GOAL?**

18 A. No, I do not think "eliminating the water augmentation tariff" is the goal of this
19 proceeding. Eliminating the need to haul water on a regular basis in the summer is
20 the goal. Eliminating hauling means much lower bills for our customers and the
21 likely easing of the curtailment restrictions. But, to begin with, the line is not yet
22 built. If we get the necessary approvals, we will borrow the money, hire the
23 contractor and move as fast as we can. We hope to have the line done by
24 Spring 2014 and in use before the water shortages typically start (i.e., late spring/
25 early summer). But what if we can't, through no fault of our own? What if the

26 ⁴ Staff Report at 4.

1 loan is delayed? What if the contractor does not complete the job? What if the
2 section currently being constructed by the Town of Payson has delays? What if
3 ADEQ prohibits us from using the line once it is operational? If the water
4 augmentation tariff is immediately and irrevocably rescinded right now, before our
5 work begins on the line, the Company faces extraordinary downside risk.

6 If, for any reason, we cannot get the line in operation by May 2014, we
7 would face an impossible situation next summer without any means to recover the
8 cost of hauling water to MDC. If the contractor's equipment fails, we would haul
9 water at huge cost with no means of recovery. If the winter in Payson doesn't
10 cooperate and comes later or harder than usual, we would haul water at huge costs
11 with no means of recovery. If the contractor has issues, either with the job, the
12 permitting, or within their own company, we would haul water at huge costs with
13 no means of recovery. I can think of a lot of situations, all outside our control, that
14 could happen and if any one of them does happen, PWC faces massive financial
15 risk.

16 **Q. BUT IF YOU RETAIN THE HAULING TARIFF, WHAT INCENTIVE**
17 **WOULD YOU HAVE TO BUILD THE INTERCONNECTION AS SOON AS**
18 **POSSIBLE?**

19 A. Eliminating the need to haul water all summer is a powerful incentive.
20 The Company is already committed to the Cragin pipeline project for this reason.
21 And since buying this Company, I have spent hundreds of hours addressing MDC.
22 We get the same calls and complaints as the Commission does. That's why I have
23 spent all this time, and why we are spending tens of thousands of extra dollars in
24 expedited Commission proceedings. Because building the Interconnection as soon
25 as possible is the best thing for the Company and its customers.
26

1 It should be recalled that just a few months ago, the best plan we had was to
2 wait until Cragin Water was available in 2016, and endure three more summers of
3 augmentation. I certainly would not have proposed the Interconnection plan if my
4 intent was to do anything other than to solve this issue prior to Summer 2014.
5 And if for some reason the line isn't in place, I fully expect our customers, the
6 Commission Staff, and the Commissioners to be "all over me" asking for
7 explanations and resolution. I have already committed a lot of time and money to
8 get this line built and we are the ones that have the most to lose now if this line
9 doesn't get built in time to avoid hauling. But without the hauling tariff, I would
10 also have the real threat of the Company simply not surviving.

11 **Q. COULD THE AUGMENTATION TARIFF BE ELIMINATED WHEN YOU**
12 **FINISH THE INTERCONNECTION?**

13 A. That's one option and it's better than the current option in the Staff Report.

14 **Q. IS THERE ANOTHER OPTION?**

15 A. Yes. Actually, we believe there is a way to immediately eliminate the Water
16 Augmentation Tariff but still protect the Company from unintended consequences.

17 **Q. HOW DO YOU PROPOSE TO DO THAT, MR. WILLIAMSON?**

18 A. By modifying Staff's proposed Purchased Water Adjuster (PWA) tariff. A copy of
19 the Company's modified proposed PWA is attached to this testimony as **Exhibit**
20 **JW-RT1**.

21 **Q. HOW HAVE YOU MODIFIED STAFF'S PROPOSED TARIFF?**

22 A. Staff's tariff was limited to water purchased from Payson and delivered through the
23 Interconnection. But this fails to recognize that there are circumstances where use
24 of the Interconnection may be prohibited for reasons outside the Company's
25 control. The Company's version of the PWA addresses this by (1) making the
26 Interconnection the sole delivery source absent emergency circumstances; then (2)

1 defining the limited circumstances in which an emergency would exist; and
2 (3) adding to Staff's already stringent notice requirements in the event an
3 emergency requires delivery by some means other than the Interconnection.

4 Again, I appreciate that Staff wants to eliminate the Water Augmentation
5 Tariff now – because that will give solace to customers. But to do so before we
6 even make the application to borrow the money to build the Interconnection is a
7 recommendation that puts the Company at great risk. I don't think we should be
8 penalized for finding a way to get more water to MDC sooner by taking away our
9 safety net. We already have every incentive to complete the Interconnection as
10 soon as possible. And we have a way to eliminate the tariff now and protect the
11 Company. It seems to me like this should satisfy everyone.

12 **B. Timing of Permanent Rates**

13 **Q. IN YOUR SUMMARY YOU MENTIONED A CONCERN OVER THE**
14 **TIMING OF THE RATE CASE. DO YOU WISH TO ADDRESS THAT**
15 **CONCERN FURTHER?**

16 **A.** Yes, briefly. As I testified above, one place in the Staff Report recommends that
17 the Commission decide the underlying rate case "before the end of 2014."⁵ Then in
18 Staff's Condition No. 11 it simply says process the rate case with a final decision
19 resulting in a debt service coverage of 1.2 or greater.⁶ This is confusing to me.

20 **Q. WHEN DOES THE COMPANY EXPECT NEW RATES TO BE SET?**

21 **A.** The time clock on the rate case expires around the beginning of March 2014.
22 We agreed to extend the time clock to start the hearings in January 2014 instead of
23 December 2013, when we submitted a proposed procedural schedule with Staff.
24 That schedule contemplated the Commission issuing a final order setting new rates

25 _____
26 ⁵ Staff Report at 3.

⁶ Staff Report at 5.

1 in April 2014 with those rates going into effect in May 2014.

2 **Q. WHAT WILL HAPPEN IF NEW RATES ARE DELAYED BEYOND THAT**
3 **DATE?**

4 A. We have agreed not to seek an interim increase in our revenue requirement and to
5 go ahead and build the Interconnection, but there is little chance we can keep
6 operating beyond May 1, 2014 without more revenue. WIFA staff is already
7 making an exception to their loan covenants by stating they will recommend a loan
8 to us when we cannot meet the 1.2 debt service coverage requirement, with the
9 caveat that they expect new rates to be in place by mid-year. That's what the most
10 recent procedural order in this case contemplates. We bear the responsibility and
11 the risk for buying a utility in dire financial condition, but the Company has
12 addressed the condition through its application for permanent rates, which rates are
13 necessary to get its financial ship in order as soon as possible.

14 **C. Purchased Water Cost**

15 **Q. EARLIER YOU EXPLAINED THE PROPOSED MODIFICATIONS**
16 **MR. WILLIAMSON, BUT CAN YOU TAKE A STEP BACK AND**
17 **EXPLAIN WHY THE COMPANY NEEDS THE PWA?**

18 A. Because there is no provision in our rates for recovery of water purchased from
19 Payson for MDC and the Water Augmentation Tariff only covers hauled water.

20 **Q. WHAT IS THE COST OF THE WATER PURCHASED FROM PAYSON?**

21 A. Approximately \$7.48 per 1000 gallons.

22 **Q. DOES STAFF'S PROPOSED PWA USE A DIFFERENT NUMBER?**

23 A. Yes, in the examples for calculating the surcharge Staff used \$2.75 as the estimated
24 cost of the water. While these are just examples, we have already received calls
25 from customers wondering about the \$2.75 price tag. It appears that Staff got the
26 \$2.75 from our filings – and I apologize for any misunderstanding, but the \$2.75 is

1 the cost we expect after the Cragin pipeline becomes operational, that's the Cragin
2 cost. But the current cost of the water we buy from Payson is set by the Town,
3 readily verifiable, and outside of our control. In fact, as I testified already, it is the
4 same water we are buying now and hauling; with the interim pipeline we are just
5 eliminating the hauling cost.⁷

6 **Q. ARE ANY MODIFICATIONS REQUIRED TO ADDRESS THIS**
7 **CONCERN?**

8 A. Not to the tariff itself as this appears to have just been an illustration of the
9 calculation. To help clear up any further confusion though, Mr. Bourassa has
10 included illustrations of the calculation using the actual cost of \$7.48 in his
11 responsive testimony. He has also addressed the concern with the calculation
12 methodology in his responsive testimony.

13 **Q. DOES THIS COMPLETE YOUR RESPONSIVE TESTIMONY?**

14 A. Yes.
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26 ⁷ Testimony of Jason Williamson (filed August 15, 2013) at 6:15-17.

EXHIBIT JW-RT1



Payson Water Company, Inc.

Docket Nos. W-03514A-13-0111 and W-03514A-13-0142

Page 1

PURCHASED WATER ADJUSTOR

I. Purpose and Applicability

The purpose of this tariff is to equitably apportion the costs of water purchased through an ~~interconnection with~~ from the Town of Payson among Mesa Del Caballo customers. These charges are applicable to all connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Company" means Payson Water Company, Inc.

"Interconnection"- means the interconnection between the Town of Payson's water system and the Company's Mesa del Caballo water system.

"Purchased Water Cost" means the actual cost billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and by the Company's water system.

"Purchased Water Quantity" means the actual quantity (in thousands of gallons) of water billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the Company's water system.

"Purchased Water Surcharge" means the surcharge calculated in accordance with Section IV below.

"Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased from the Town of Payson through the interconnection between the Town of Payson's water system and the Company's water system.

III. Use of Interconnection

Unless an emergency exists that precludes the Company from using the Interconnection, the Interconnection shall be the sole means of delivering water purchased from the Town of Payson by the Company for its Mesa del Caballo system from the date the Interconnection is placed in service or May 15, 2013, whichever occurs first. An emergency will exist in the event that (1) the Company has been precluded from putting the Interconnection in service despite reasonable

efforts; (2) the Interconnection is in service but not available due to non-routine repairs or maintenance that cannot be completed in 48 hours despite all reasonable efforts; or (3) the Company is otherwise prohibited from using the Interconnection by order of a court or agency with applicable jurisdiction.

IV. Surcharge Rate Calculation

For each month that the Company purchases water from the Town of Payson ~~through the interconnection between the Town of Payson's water system and the Company's water system,~~ the Company will calculate the Surcharge Rate per the following example when all water is purchased from the Town of Payson.

Example (For Illustrative Purposes Only) - All water is purchased from the Town of Payson

A customer uses 4,500 gallons of water.

~~The commodity cost being billed by Payson Water Company to this customer would be \$8.71 calculated as follows:~~

Per 1,000 Gallons				
0 to 4,000	\$1.93	$4.0 \times \$1.93$	=	\$7.72
Over 4,000	\$2.99	$0.5 \times \$2.99$	=	<u>\$0.99</u>
				\$8.71

The commodity cost billed from the Town of Payson would be:

Per 1,000 Gallons	Cost per 1,000 gallons	Computation		Total
All Gallons	\$7.48	$4.5 \times \$7.48$	=	\$33.66

The surcharge for this customer would be:

Purchased Water Cost		Surcharge
\$33.66	=	\$33.66

~~Attachment A~~ of this ~~Tariff Staff Report~~ provides examples of the surcharge calculation when less than 100 percent of all water is purchased from the Town of Payson.

IV. Terms and Conditions

(A) Assessment and Billing of Purchased Water Surcharge: For any month in which water is purchased from the Town of Payson, after completing its billing for the month and receiving the Town's billing for the month, Payson will make the surcharge calculation to determine the Surcharge Rate.

In the following month, Payson will bill the Purchased Water Surcharge to its customers. Each individual customer's billing for the Purchased Water Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from the Town) times the Surcharge Rate.

The Purchased Water Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which the Company intends to bill customers a Purchased Water Surcharge, the Company shall provide Commission Staff notice of the Company's intent to bill the Purchased Water Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the Town of Payson.
4. A schedule showing the calculation of the Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

In the event the Company is precluded from using the Interconnection for more than 48 hours for any reason, it shall notify the Commission promptly and prior to undertaking any other means to transmit water purchased from the Town of Payson. Such notice shall state the reasons the Interconnection is not available and include a description of the means by which the Company intends to transmit Purchased Water from Payson to its Mesa del Caballo system and an estimation of the additional costs, if such costs are to be included in the cost of Purchased Water cost under this tariff.

~~Attachment C~~

~~PURCHASED WATER SURCHARGE
EXAMPLE CALCULATIONS—
WHEN LESS THAN 100 PERCENT
OF ALL WATER PURCHASED
FROM THE TOWN OF PAYSON~~

COMPANY REVISED STAFF COMPUTATION Attachment A

Surcharge Calculation Example - When Less Than 100% of All Water Purchased From Town of Payson

Examples assume that 25% of total water purchased from the Town of Payson.

Example 1 - Median Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]
Total Usage Assumption	% of Gallons From Town of Payson	Gallons In '000s From Town of Payson Col A x Col B	Town of Payson Commodity Rate = Col [D]	Rate per 1,000 gal = Col [E]	Surcharge Col C x Col E
Block 1 4,000 x	25% =	1,000	\$ 7.48	\$ 7.48	\$ 7.48
Block 2 500 x	25% =	0.125	\$ 7.48	\$ 7.48	\$ 0.94
Total Usage Assumption 4,500		<u>1,125</u>			Total Monthly Surcharge \$ 8.42

Example 2 - High Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 25,000 gallons; 75% (or 18,750) from Payson Water Company and 25% (or 6,250) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]
Total Usage Assumption	% of Gallons From Town of Payson	Gallons In '000s From Town of Payson Col A x Col B	Town of Payson Commodity Rate = Col [D]	Rate per 1,000 gal = Col [E]	Surcharge Col C x Col E
Block 1 4,000 x	25% =	1,000	\$7.48	\$ 7.48	\$ 7.48
Block 2 21,000 x	25% =	5,250	\$7.48	\$ 7.48	\$ 39.27
Total Usage Assumption 25,000		<u>6,250</u>			Total Monthly Surcharge \$ 46.75

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Jay L. Shapiro (No. 014650)
2 2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85016
3 Telephone (602) 916-5000

4 Attorneys for Payson Water Co., Inc.
5

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7 IN THE MATTER OF THE APPLICATION
8 OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR A
9 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
10 PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
11 UTILITY SERVICE BASED THEREON.

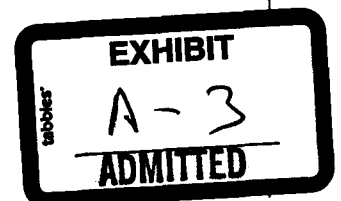
DOCKET NO: W-03514A-13-0111

12 IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
13 ARIZONA CORPORATION, FOR
AUTHORITY TO: (1) ISSUE EVIDENCE
14 OF INDEBTEDNESS IN AN AMOUNT
NOT TO EXCEED \$1,238,000 IN
15 CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY
16 SYSTEM; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
17 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

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20 **RESPONSIVE TESTIMONY OF**
21 **THOMAS J. BOURASSA**
22

23 **September 23, 2013**
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III. PURCHASED WATER SURCHARGE 7

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1 **I. INTRODUCTION, PURPOSE AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of the Applicant, Payson Water Co., Inc. ("PWC" or the "Company").

7 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes, my pre-filed direct testimony was submitted in support of the Company's
10 request to consolidate and expedite the financing and rate applications.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. I will testify in response to the Staff Report for Phase 1 filed on September 18,
13 2013. More specifically, I will provide comments on the Staff recommendations
14 surrounding the debt surcharge mechanism related to the Company's request to
15 borrow up to \$275,000 from the Water Infrastructure Finance Authority of Arizona
16 ("WIFA"). My testimony will include a response to Staff's recommendation to
17 treat the proceeds of the WIFA loan surcharge as contributions-in-aid of
18 construction ("CIAC"). I will also provide comments of the Staff recommended
19 proposed Purchased Water Adjuster (PWA), with which the Company has a couple
20 of concerns.

21 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

22 A. I will testify as follows:

23 1) The Company is in agreement with the Staff WIFA debt surcharge
24 calculation as illustrated on Staff Schedule CSB-1 and agrees that the proceeds will
25 be kept in a segregated account to be used only to make the WIFA loan payments.
26

1 2) The Company does not agree with the Staff recommendation to treat the
2 WIFA debt surcharge proceeds (all or in part) as CIAC. Such treatment is
3 improper and will have the unintended consequence of depriving the Company of
4 the ability to fully recover its investment and cost of capital in the future.

5 3) The Company conceptually agrees with the Staff recommended PWA
6 but does not agree on the methodology for computing the surcharge contained in
7 Attachment B and Attachment C. Staff's methodology will not allow the Company
8 to fully recover its purchased water costs from the Town of Payson. I should also
9 note, the illustrative computations presented by Staff significantly understate the
10 expected Purchased Water Cost and as a result could lead to confusion on the
11 amount of the expected surcharge. The actual commodity cost is expected to be
12 \$7.48 per thousand gallons, not the \$2.75 cost of water from the Cragin pipeline.
13 To alleviate this confusion, the Company provides its own illustrative examples
14 based on the Staff methodology.

15 **II. WIFA DEBT SURCHARGE**

16 **Q. PLEASE COMMENT ON STAFF'S WIFA DEBT SURCHARGE**
17 **COMPUTATION.**

18 A. I have reviewed the Staff WIFA debt surcharge computation methodology shown
19 on Staff Schedule CSB-1. The Company agrees with the methodology and finds
20 the computed example total surcharge of approximately \$32,447 and the monthly
21 surcharge computations (e.g. \$7.44 per month for a 5/8x3/4 inch metered customer)
22 as reasonable estimates based upon the currently available information. Obviously,
23 the actual amounts may be different depending on the actual loan amount, tax
24 impact, and customer counts at the time the Company submits its WIFA loan
25 surcharge calculation.

26

1 Q. DOES THE COMPANY AGREE TO THE STAFF RECOMMENDATION
2 THAT THE COMPANY SUBMIT THE WIFA LOAN SURCHARGE
3 COMPUTATION WITHIN 15 DAYS OF THE LOAN CLOSING?

4 A. Yes.

5 Q. DOES THE COMPANY AGREE WITH STAFF THAT THE SURCHARGE
6 PROCEEDS BE PLACED IN A SEGREGATED BANK ACCOUNT AND BE
7 USED ONLY FOR THE PURPOSES OF MAKING PAYMENTS ON THE
8 WIFA LOAN?

9 A. Yes.

10 Q. DOES THE COMPANY AGREE WITH STAFF THAT THE WIFA LOAN
11 SURCHARGE PROCEEDS BE TREATED AS CIAC?

12 A. No, such treatment is improper. The revenues collected under that surcharge are
13 no more CIAC than the revenues required to provide a return on and of any other
14 plant investment funded with debt and/or equity. Under the utility ratemaking
15 framework, utilities are provided a revenue requirement that includes revenues for
16 depreciation recovery and capital cost recovery – the return on and of capital.
17 While the loan surcharge is very specific, covering only a single plant investment,
18 its purpose is essentially the same as other revenue increases the Commission finds
19 are needed to provide the revenues to provide a return on and of plant investment.
20 Granted, the loan surcharge revenue has an additional purpose of addressing the
21 fact that the Company currently cannot cash flow the loan payments and to satisfy
22 WIFA that the Company can repay the loan. But, that does change the underlying
23 nature of the revenues provided under the surcharge.

24

25

26

1 Q. WHAT HAPPENS IF THE SURCHARGE REVENUES ARE TREATED AS
2 CIAC?

3 A. Treatment of the WIFA loan surcharge revenues as CIAC will have the unintended
4 consequence of depriving the Company of the ability to fully recover its investment
5 and its cost of capital on that investment in the future.

6 Q. WHY?

7 A. Rate base will be reduced by the CIAC amounts, which will lead to lower earnings
8 than are necessary to cover capital costs. It will also lead to lower depreciation
9 recovery, which will reduce the cash flow needed to service the loan. The future
10 WIFA loan payments on the \$275,000 will stay the same, but the Company will
11 have less cash flow (depreciation and operating income) to service the WIFA loan.

12 Q. CAN YOU ILLUSTRATE YOUR POINT THAT THE OPERATING
13 INCOME AND DEPRECIATION IN A FUTURE RATE CASE WILL BE
14 LOWER, RESULTING IN THE COMPANY'S INABILITY TO COVER ITS
15 COST OF CAPITAL AND SERVICE ITS DEBT?

16 A. Yes. Let's assume the Company files its next rate case in five years. Also assume
17 the annual \$32,447 of WIFA loan surcharge will be in place for the five years.
18 Also assume the depreciation rate is 2.0 percent and the WIFA interest rate is 4.99
19 percent. Considering only the \$275,000 plant investment, the rate base with and
20 without the WFA loan surcharge proceeds treated as CIAC at the end of the fifth
21 year would be as follows:

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	Surcharge Not Treated as CIAC	Surcharge Treated as CIAC
Plant-in-Service	\$ 275,000	\$ 275,000
A/D	(24,750)	(24,750)
Net Plant	\$ 250,250	\$ 250,250
Less: CIAC	\$ -	\$ 162,235
A.A. CIAC		(9,410)
Rate Base	\$ 250,250	\$ 78,605

As can be seen, the rate base is significantly less if the surcharge revenues are treated as CIAC. This will result in less operating income (earnings) being afforded to the Company in the next rate case. Operating income will be significantly less than interest expense (the capital cost).

To illustrate, the Year 5 required operating income, interest expense, and net income would be as follows:

	Surcharge Not Treated as CIAC	Surcharge Treated as CIAC
Cost of Debt	4.99%	4.99%
Required Operating Income (Rate Base x Cost of Debt)	\$ 12,487	\$ 3,922
Less: Interest Expense (year 5)	\$ (11,932)	\$ (11,932)
Net Income	\$ 555	\$ (8,010)

Again, this shows that the operating income determined from the rate base that includes CIAC is much lower and significantly less than the interest expense. In fact, the operating income of \$3,922 covers only about a third of the interest expense. The operating income determined from the rate base that does not include CIAC covers all the interest expense. Remember, the interest expense is the cost of capital.

1 **Q. WHAT ABOUT CASH FLOW?**

2 A. The following is a year 5 cash flow computation:

3

	Surcharge Not Treated as CIAC	Surcharge Treated as CIAC
4		
5 Operating Income	\$ 12,487	\$ 3,922
6 Depreciation, net of amortization	\$ 5,500	\$ 2,255
Cash Flow	\$ 17,987	\$ 6,178
7 Annual Debt Service (principal + interest)	\$ 22,048	\$ 22,048
8 Debt Service Coverage Ratio	0.82	0.28

9 This illustrates that the lower operating income and depreciation that will be
10 afforded the Company when the WIFA loan surcharge is treated as CIAC provides
11 significantly less cash flow. In the example above, the debt service coverage ratio
12 is just 0.28, meaning there is less than a third the amount of cash generated in order
13 to pay the annual debt service.

14 **Q. IT APPEARS FROM YOUR ILLUSTRATION THAT EVEN IF THE LOAN**
15 **SURCHARGE REVENUES ARE NOT TREATED AS CIAC THERE WILL**
16 **BE INSUFFICIENT CASH FLOW. PLEASE EXPLAIN.**

17 A. That is true. Since the depreciation rate is 2 percent (or 50 year investment
18 recovery) and the loan amortization period is 20 years, the Company will be paying
19 back the loan at a faster rate than it recovers through depreciation. The Company
20 will have to make up the difference with other cash flows (if available) or possibly
21 through the raising of additional equity or debt capital. This is the consequence of
22 funding plant with loan repayment periods that are less than the depreciation
23 recovery periods. These situations create financial risk.

24 **Q. SHOULD ANY PART OF THE WIFA LOAN SURCHARGE BE TREATED**
25 **AS CIAC?**

26 A. No, for the reasons I discussed above.

1 **III. PURCHASED WATER SURCHARGE**

2 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDED PURCHASED**
3 **WATER ADJUSTER.**

4 A. I have reviewed the Staff purchased water surcharge tariff, methodology for
5 computing the surcharge, and the illustrative surcharge computations as set forth in
6 Attachment B and Attachment C of the Staff Report. The Company does not agree
7 with the Staff methodology of computing the purchased water surcharge.

8 **Q. WHY?**

9 A. Because the Staff methodology does not allow full recovery of the purchased water
10 costs the Company will incur from the Town of Payson. This is true because the
11 Staff methodology subtracts the commodity costs (based on the tariffed commodity
12 rates) from the Town of Payson commodity costs to compute the surcharge. This
13 would be fine if the current commodity rates were designed to only recover the
14 Town of Payson purchased water costs and no other costs. But, they are not. The
15 commodity rates are designed to provide revenues to recover a portion of the
16 Company's cost of service, which includes wages and salaries, purchased power,
17 chemicals, water testing, contractual services, insurance, repairs and maintenance,
18 depreciation, property and income taxes, etc. The tariffed commodity rates do not
19 include any recovery of the Town of Payson purchased water cost and therefore
20 these costs should be an addition to the tariffed commodity rates; not a net amount
21 as contemplated by Staff.

22 **Q. HOW SHOULD THE SURCHARGE BE COMPUTED?**

23 A. Simply take the total cost of the water purchased from the Town of Payson and
24 divide it by the total gallons sold (in 1,000 gallons). The result will be the per
25 commodity rate (in 1,000 gallons). The resulting commodity rate is then multiplied
26 by the customer's usage (in 1,000 gallons) to determine the surcharge. The

1 surcharge will be a separate line item on the customer's bill.

2 **Q. CAN THE STAFF METHODOLOGY BE MODIFIED TO ACCOMPLISH**
3 **THIS?**

4 A. Yes, simply remove any reduction to the Town of Payson purchase water costs
5 related to the tariffed commodity rates. The methodology would then be as
6 follows:

7
8 If 100 percent of the water purchased from the Town of
9 Payson, then the customer is charged the Town of Payson
10 commodity rate which is currently estimated to be \$7.48 per
11 thousand gallons. The surcharge for a customer using 4,500 gallons
12 would be \$33.66 ($4.5 \times \$7.48 \times 100\%$).

13 If less than 100 percent of the water the Company sells is
14 purchased from the Town of Payson, then the commodity rate is
15 reduced to the proportion of water purchased. The surcharge for a
16 customer using 4,500 gallons when the total water purchased from
17 the Town of Payson is 25 percent of the total gallons sold, the
18 surcharge would be \$8.42 ($4.5 \times \$7.48 \times 25\%$). The surcharge for a
19 customer using 25,000 gallons when the total water purchased from
20 the Town of Payson is 25 percent of the total gallons sold, the
21 surcharge would be \$46.75 ($25 \times \$7.48 \times 25\%$).

22 **Q. DOES THE COMPANY AGREE THAT THE PWA COST SHOULD BE A**
23 **SEPARATE ITEM ON THE BILL?**

24 A. Yes, the amount of the adjuster will be a separate line item on the customer's bill.

25 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

26 A. Yes. Putting aside the fact the Company disagrees with the Staff methodology,
Staff's illustrative computations significantly understate the cost of the water
creating confusion. Staff employs a cost of \$2.75 per thousand gallons when the
cost of purchased water is currently estimated to be \$7.48 per thousand gallons.

1 Q. BUT DIDN'T STAFF GET THE NUMBER FROM YOUR TESTIMONY
2 AND THE COMPANY'S DATA REQUEST RESPONSES?

3 A. Yes, but the \$2.75 per thousand commodity rate is the estimated rate the Company
4 will pay to the Town of Payson once the Cragin Pipeline project is completed,
5 which is currently estimated to be sometime in 2016. The possibility of the
6 currently contemplated Interconnection did not even exist when my direct
7 testimony was filed. Moreover, as Mr. Williamson has previously testified, the
8 Interconnection will deliver the same water that is currently being bought from the
9 Town and hauled.¹ The \$7.48 per thousand gallon commodity rate is the estimated
10 current cost of water normally charged by the Town of Payson for water delivered
11 by tanker truck or other means and in the absence of the Cragin Pipeline.

12 Q. HAVE YOU PREPARED EXHIBITS SHOWING ILLUSTRATIVE
13 SURCHARGE COMPUTATIONS USING THE \$7.48 COMMODITY
14 RATE?

15 A. Yes. Attached as **Exhibit TJB-RT1** is an illustrative computation that compares to
16 the illustrative computation contained in Attachment B of the Staff Report. This
17 schedule shows a revised adjuster amount of \$24.45 as compared to the Staff
18 computed surcharge of \$3.66.

19 Also attached as **Exhibit TJB-RT2** is an illustrative computation that
20 compares to the illustrative computation contained in Attachment C of the Staff
21 Report. Here, the revised surcharge amount for the usage assumption of \$4,500
22 gallons is \$6.11 as compared to the Staff computed surcharge of \$0.79. This also
23 shows that the revised surcharge amount for the usage assumption of \$25,000
24 gallons is \$29.12 as compared to the Staff computed surcharge of \$(0.44).

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26 ¹ Testimony of Jason Williamson (filed August 15, 2013) at 6:15-17.

1 Q. DOES THAT CONCLUDE YOUR RESPONSIVE TESTIMONY?

2 A. Yes.

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EXHIBIT TJB-RT1

COMPANY REVISED STAFF COMPUTATION

Exhibit TJB-RT-1

A customer uses 4,500 gallons of water.

The commodity cost being billed by Payson Water Company to this customer would be \$8.71 calculated as follows:

Per 1,000 Gallons	1.93	4.0 x \$1.93	=	\$ 7.72
0 to 4,000	2.99	0.5 x \$2.99	=	\$ 1.50
				\$ 9.22

The commodity cost billed from the Town of Payson would be:

$$\text{Per 1,000 Gallons} \quad 7.48 \quad 4.5 \times \$7.48 \quad = \quad \$ 33.66$$

The surcharge fort his customer would be"

Purchased Water Cost		Water Cost per Company's Approved Tariff		Surcharge
\$ 33.66	-	\$ 9.22	=	\$ 24.45

EXHIBIT TJB-RT2

Exhibit TJB-RT-2

Examples assume that 25% of total water purchased from the Town of Payson

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

Total Monthly Surcharge \$ 6.11 *
***Excludes Taxes**

This example illustrates how the surcharge would be calculated for a customer using 25,000 gallons; 75% (or 18,750) from Payson Water Company and 25% (or 6,250) from the Town of Payson.

Total Monthly Surcharge \$ 29.12 *
***Excludes Taxes**

Payson Water Company
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 386,877	\$ (73,318)	\$ 313,559	\$ 399,785	\$ 713,344
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	8,031	(1,065)	6,966	-	6,966
5		<u>\$ 394,908</u>	<u>\$ (74,383)</u>	<u>\$ 320,525</u>	<u>\$ 399,785</u>	<u>\$ 720,310</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 55,097	-	\$ 55,097	-	\$ 55,097
8	Purchased Water	51,953	(51,953)	-	-	-
9	Purchased Power	56,482	(5,949)	50,533	-	50,533
10	Fuel For Power Production	-	-	-	-	-
11	Chemicals	2,438	(257)	2,181	-	2,181
12	Repairs and Maintenance	28,136	(47)	28,089	-	28,089
13	Office Supplies and Expense	-	-	-	-	-
14	Contractual Services	70,679	(12,198)	58,481	-	58,481
15		-	-	-	-	-
16		-	-	-	-	-
17		-	-	-	-	-
18	Water Testing	11,000	-	11,000	-	11,000
19	Rents	-	-	-	-	-
20	Transportation Expenses	-	-	-	-	-
21	Insurance - General Liability	-	-	-	-	-
22	Insurance - Health and Life	266	-	266	-	266
23	Reg. Comm. Exp. - Other	-	-	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	65,000	65,000	-	65,000
25	Miscellaneous Expense	235,989	(736)	235,253	-	235,253
26		-	-	-	-	-
27	Depreciation and Amortization Expense	68,142	17,490	85,632	-	85,632
28	Taxes Other Than Income	-	-	-	-	-
29	Property Taxes	11,127	9,903	21,030	8,743	29,773
30	Income Tax	-	(109,557)	(109,557)	136,022	26,465
31		-	-	-	-	-
32	Total Operating Expenses	<u>\$ 591,309</u>	<u>\$ (88,305)</u>	<u>\$ 503,004</u>	<u>\$ 144,765</u>	<u>\$ 647,770</u>
33	Operating Income	<u>\$ (196,401)</u>	<u>\$ 13,922</u>	<u>\$ (182,479)</u>	<u>\$ 255,020</u>	<u>\$ 72,540</u>
34	Other Income (Expense)					
35	Interest Income	-	-	-	-	-
36	Other income	610	(610)	-	-	-
37	Interest Expense	(14)	14	-	-	-
38	Other Expense	-	-	-	-	-
39	Gain(loss) on Disposal of Fixed Assets	755,709	(755,709)	-	-	-
40	Total Other Income (Expense)	<u>\$ 756,305</u>	<u>\$ (756,305)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	Net Profit (Loss)	<u><u>\$ 559,904</u></u>	<u><u>\$ (742,383)</u></u>	<u><u>\$ (182,479)</u></u>	<u><u>\$ 255,020</u></u>	<u><u>\$ 72,540</u></u>

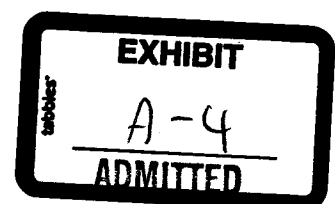
SUPPORTING SCHEDULES:

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E-2

RECAP SCHEDULES:

A-1



**REVISED
STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

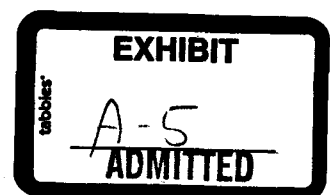
C & S WATER COMPANY, INC.

DOCKET NO. W-02134A-99-0176

**APPLICATION
FOR
FINANCING APPROVAL
AND A
PERMANENT RATE INCREASE**

NOVEMBER 1999

Sm786sfr



	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
Water Sales	\$35,158	\$0	\$35,158
Other Operating Revenue	1,008	0	1,008
Total Operating Revenue	\$36,166	\$0	\$36,166
Operating Expenses:			
Purchased Pumping Power	\$5,072	\$0	\$5,072
Purchased Water	0	0	0
Salaries and Wages	14,478	0	14,478
Program Planning Expense	0	433 A	433
Water Testing	5,193	(3,984) B	1,209
Materials & Supplies	1,649	0	1,649
Rate Case Expense	2,000	(1,333) C	667
Office Supplies & Expense	2,067	(419) D	1,648
Insurance	187	0	187
Outside Services	3,980	0	3,980
Rents	3	0	3
Depreciation	5,489	(2,523) E	2,966
Property Tax	2,000	(170) F	1,830
Taxes Other Than Income	45	0	45
Income Taxes	0	50 G	50
Overhead Allocation	9,496	0	9,496
Total Operating Expenses	\$51,659	(\$7,946)	\$43,713
OPERATING INCOME/(LOSS)	(\$15,493)	\$7,946	(\$7,547)
Other Income/(Expense):			
Interest Income	\$0	\$0	\$0
Other Income	0	0	0
Interest Expense	5,155	(2,635) H	2,520
Other Expense	0	0	0
Total Other Income/(Expense)	(\$5,155)	\$2,635	(\$2,520)
NET INCOME/(LOSS)	(\$20,648)	\$10,581	(\$10,067)